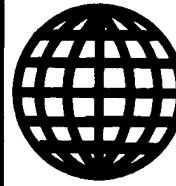


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WEST EUROPE

Unification of Two Germanys Proceeds Apace

90CM0371A Beijing LIAOWANG [OUTLOOK]
in Chinese No 30, 23 Jul 90 pp 39-40

[Article by wire from Berlin by special correspondent Wang Defeng (3769 1795 1496): "The German Democratic Republic—After the State Treaty Between the Two Germanys Comes Into Force"]

[Text] The state treaty between the German Democratic Republic [GDR] and the Federal Republic of Germany [FRG], establishing an economic, currency, and social confederation, came into force on 1 July. From that day on, the only official currency in the 108,000 square kilometers of East Germany's territory will be the West German Deutsche mark, and the East German economic system will be transformed according to the West German economic system.

The state treaty between the two Germanys was signed on 18 May, after much hard bargaining and heated argument. The state treaty referred to here is a treaty which in substance establishes a relationship of currency, economic, and social confederation between the two Germanys. Its essence is not only that the Deutsche mark has been adopted as legal tender in East Germany and the eastmark is abolished, thus unifying the currency in both Germanys, but also that the GDR will gradually transform its social security system according to the major relevant economic and social welfare laws of West Germany, thereby achieving a uniformity of policies in these respects. It is for this reason that some people have said that the enforcement of the state treaty between the two Germanys renders the German unification process even more irreversible. The treaty marks the economic unification of the two Germanys and shows the extent to which the critical breakthrough has been achieved so far in the unification process between the two Germanys.

The state treaty stipulates that West Germany allocate 115 billion Deutsche marks to ensure East Germany's ability to pay in Deutsche marks all original salaries and pensions to its more than 8 million workers and employees and to its 2 million pensioners. The entire population of East Germany of 16.7 million is divided into three age groups, those under 14 years old, those between 15 and 59, and those over 60. Their individual deposits of up to 2,000, 4,000, and 6,000 marks will be converted into Deutsche marks at a 1:1 rate, and amounts above the mentioned figures at the rate of 2:1.

By the end of June, all credit institutions, such as banks and savings agencies, as well as post offices in East Germany had essentially finished changing the accounts of its citizens and had issued more than 20 billion Deutsche marks into the hands of its citizens. Shops throughout the country have stocked up with large quantities of Western merchandise for their customers, who for the first time have received wages and salaries in Deutsche marks.

However, the state treaty between the two Germanys has brought not only Deutsche marks and Western merchandise to the GDR citizenry, but also inflation of commodity prices, unemployment, and, as a consequence of these, various social evils. Experts on economic and social questions in both Germanys believe that, after the state treaty comes into force and the currency of the two Germanys is unified, a much larger influx of West German businessmen into East Germany will occur. Under the impact of the huge economic strength of West Germany, it is anticipated that 20 to 30 percent of East Germany's factories will have to shut down, and that this will result in the unemployment of as many as 1.5-2 million people, a figure which may increase by another 500,000 within the year.

Vanishing of the Berlin Wall

The Berlin Wall, once the symbol of the momentous East-West confrontation and of the extreme incompatibility between the socialist GDR and the capitalist FRG, so heavily guarded and strongly fortified in former times, has now, under the onslaught of the reunification tide in both Germanys, become nothing but a dilapidated ruin, riddled with gaping holes. Even the lookout platforms, which had attracted tourists from all over the world, and which had been erected to the west of the Berlin Wall at the Potsdam Place and in front of the Brandenburg Gate have been dismantled, as has the wall itself. Some people used axes to break off pieces of cement from what remained of the ruined wall to keep as mementos. Some peddlers or unemployed vagrants even set up stalls at the Brandenburg Gate, in front of the Reichstag Building [former parliament building], and at other places where tourists congregate to sell pieces of cement, which they had broken off the Berlin Wall in uneven, larger or smaller pieces, as souvenirs. The Berlin Wall has by now ceased to exist except in name.

Until the time that a large-scale operation was launched on 13 June to remove all of the Berlin Wall, there had been 35 thoroughfares opened up through the 165-kilometer-long Berlin Wall, and the wall itself had been dismantled over a length of only three kilometers, while more than 140 streets—over 90 of which are within the inner city—had not yet been opened up. As the talks for the state treaty between the two Germanys progressed, as the pace of German unification accelerated, and as East-West German interchanges rapidly increased, the Berlin Wall had become psychologically and functionally an obstacle to the unification of the two Germanys, the removal of which had simply become a necessity.

The East-West Berlin Wall removal coordinating headquarters organized 35 East and West German firms to raise 43 million Deutsche marks, and on 13 June the complete removal of the Berlin Wall was started, primarily by the engineering units of the East German defense force. By 2 July, 39 roads and streets between East and West Berlin had been opened up according to plan. It is anticipated that by the end of the year the 47 kilometers of Berlin Wall within the inner city, together with all

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auxiliary installations, will have been completely removed, leaving only sections at the Brandenburg Gate, near the Reichstag building, and some other spots, six places altogether, where they would not obstruct traffic, as testimonies to history. In due course, the Berlin Wall, which had stood there for 29 years, will cease to exist.

East Germany Actively Prepares for Its Unification With West Germany

The 10th People's Parliament of the GDR, which resulted from the 18 March general election, and the Lothar de Maiziere government, which in turn was elected by the said parliament, are actually transitional power organs, which concentrated all their energy during these almost 100 days to actively prepare for the unification of the GDR with West Germany according to Article 23 of the West German Constitution.

The People's Parliament first of all passed an amendment of the constitutional articles which had made the GDR a state of socialist character, and also amended a series of laws concerning the public ownership of the means of production. Subsequently, when the parliament convened on 21 June, it passed a "Law for the Application of FRG Laws in the GDR." This measure directly introduced into the GDR all of West Germany's important laws or legal provisions concerning industry and commerce, banking, credit, insurance, commercial companies, enterprises, labor, and capital, as well as the social sphere. In this manner, a legal foundation was provided for the development of private ownership in the GDR, for the introduction of a market economy, and the GDR laws concerning economic and social welfare policies were made to conform to West German laws on these matters.

At the same time, East Germany set up a trusteeship office to convert state-run integrated enterprises into share companies, of which shares were to be sold to the public. It also established an organ to promote investments by commercial enterprises from outside the GDR, changed the system of monetary controls, permitted West German banks and insurance institutions to set up branches in the GDR, and so forth, as effective organizational preparation for its economic integration with West Germany.

To be consistent with the federal system of the FRG, East Germany specially set up regions and a department for regional affairs, to be specifically responsible for transforming the presently existing 15 special districts of the country back again into the five "lands" [states] that had existed before 1952.

Before the German general elections early in December, and before actual realization of German unification, there is still much work to be done in East Germany; for instance, the work of reinstating the system of "lands"

still must be completed, and much preparatory work must be done in preparation for the regional assembly elections on 24 October and the German national election on 2 December. Decisions will also have to be made for a second state treaty in connection with German unification. Moreover, it will become necessary to establish unified views on certain important questions such as where the unified German confederation should belong politically, also with regard to the disposition and composition of military forces, and so on.

Too Fast a Tempo of Unification Is Cause for Many Worries Among General Public

Several recent public opinion polls have indicated that more than 80 percent of those questioned are worried and have misgivings that the tempo of German unification is too fast. They worry that hasty action in the process of unifying the two Germanys has unfavorable results for East Germany, and that West Germany will utilize its advantageous position to transfer and bestow its economic and social problems on East Germany. Since spring of this year, large quantities of Western merchandise have flooded East German markets, and at very high prices, West German unemployment declined steeply while East German unemployment increased dramatically. Since the state treaty came into force on 1 July, West German merchandise makes up 80 percent of merchandise in East German markets. East German newspapers frequently express their dissatisfaction with this state of affairs. They say many groceries bring in only West German goods or Western goods, and East German foodstuffs are shunned. Moreover, many foodstuffs are priced too high, so that complaints are heard everywhere. Presently, East Germany has a huge army of 150,000 unemployed, which is still on the increase at the rate of 10,000 persons per week.

Conditions in the labor market, where things are going from bad to worse, cause great anxiety among the large contingent of East German workers and employees. A public opinion poll in June indicated that 53 percent of the East German labor force fears unemployment; among workers it is 60 percent, and among women it is almost 70 percent who fear they will lose their means of livelihood. Many workers are uneasy about being treated as "second-class citizens" and demand approximately equal treatment with West German workers in the same line of work. At the end of June, 3,000 sanitation workers went on strike. In the beginning of July, 120,000 metallurgical workers took to the streets, demonstrating for higher wages.

Although many obstacles must still be removed on the way to German unification, the general belief here is that the accelerated pace of German unification cannot be stopped. The German national elections at the beginning of December and German unification within one year have become inexorable events.

Seminar Held on Party Style Responsibility System

*SK2008105390 Beijing BEIJING RIBAO in Chinese
24 Jul 90 p 1*

[Text] The party style responsibility system is one of the effective ways to strengthen party style. This was the common view of all participants at the seminar of the municipal Discipline Inspection Commission on the party style responsibility system.

The party style responsibility system has been practiced in the municipality for five or six years and many units have accumulated some good experiences. From 16 to 21 August, the municipal Discipline Inspection Commission invited responsible comrades of the party committees and Discipline Inspection Commissions of more than 20 districts, counties, bureaus, general companies, and grassroots units to a seminar on the party style responsibility system held in Yanqing County to sum up experiences in implementing the party style responsibility system and to explore new ways to strengthen the building of party style.

These basic experiences were summarized into five:

1. It is necessary to unify thinking and clearly define responsibilities. Party style has a vital bearing on the life and death of the party. Only when the whole party participates in improving party style can the desired results be achieved. Implementing the party style responsibility system is aimed at sharing party style improvement work with each level and every person.
2. It is necessary to strengthen education and strive to get at the root of the problem. We should adopt various forms to enhance the understanding of party members

and cadres and to translate the implementation of the party style responsibility system into conscious action.

3. It is necessary to establish systems, strengthen supervision, and guarantee the implementation of the responsibility system. In addition to clearly defining the responsibilities of party organizations and leading cadres at all levels, the party style responsibility system should also serve as a supervisory system for investigating the leadership responsibility of party organizations and leading cadres who fail to fulfill their responsibilities as stipulated in the responsibility system.

4. It is necessary to attend to the exemplary role of party and government leading cadres. Party and government leading cadres at all levels should set an example and take the lead in implementing the party style responsibility system.

5. The discipline inspection departments should take vigorous action on their own initiative. Discipline inspection departments should take the initiative in serving as good advisers and assistants to the party committees, actively put forward opinions and suggestions for grasping party style, and conscientiously supervise and investigate the implementation of the responsibility system.

Meng Zhiyuan, member of the Standing Committee of the municipal party committee, and secretary of the municipal Discipline Inspection Commission, gave an account of the municipal achievements in building party style. Duan Yihai, executive deputy secretary of the municipal Discipline Inspection Commission, gave a speech at the end of the seminar. Liu Zhenshan, deputy secretary of the municipal Discipline Inspection Commission, presided over the meeting.

NATIONAL AFFAIRS, POLICY

Rollover Contract System Discussed

90CE0361A Beijing ZHONGGUO JINGJI TIZHI GAIGE [CHINA'S ECONOMIC STRUCTURE REFORM] in Chinese No 5, 23 May 90 pp 30-31

[Article by Liu Xiaolu (0491 2556 7216): "What Should We Do When the Enterprise Contracts Expire?"; edited by Wang Meimei (3076 5019 5019)]

[Text] Statistics show that nationwide around 70 percent of the contracts with enterprises under the contract management responsibility system will expire this year. What should we do when they expire? How do we uphold and stabilize the contract system and join the two contract periods together? This question is in the minds of many people.

Practice in most localities proves that rolling over the contracts is the best way for the relevant government departments to renew the contract with the enterprise managers and stabilize the relationship with regard to the responsibilities, rights, and privileges between the state and enterprises while giving play to the contract mechanism and curbing enterprises' short-term behavior at the same time.

I. Meaning and Characteristics of a Contract Rollover

Contract-rollover refers to the signing of a new round of contract ahead of time with a qualified enterprise at an opportune time during the current contract period. That is, a comprehensive target as well as annual quotas for a new contract using the current contract base is signed before the current contract runs out, so that the two contracts are linked together in time as well as in objective as they are being integrated and perfected. Characteristically, this method ensures stable management, minimal fluctuation in the production and operation command system, and uninterrupted contract quota.

II. Conditions for a Contract Rollover

There are basically three conditions to rolling over a contract: One, the contractor must show good performance in the previous contract period. This includes, (A) good completion of the contract and ability to fulfill with distinction or overfulfill the major economic norms and performance that stands out among others in the same trade in the key indicators; (B) evidence of exceptional progress and remarkable success with respect to development and transformation, technical advancement, management development, as well as development of superior products, which give the enterprise good developmental prospects and strong staying power; (C) ability to work well with the contracting group and win the support and endorsement by the majority of the staff and workers; (D) willingness to follow the rules and regulations, and a good audit report. Two, the enterprise's internal basic management is sound and has a practical

and workable mid- to long-term program. Three, the contractor himself has good qualities, including, (A) the desire, ability, management know-how, and management-capability to continue to develop the business; (B) good health, (C) and when the next contract term expires, he will be around 55 years old.

III. The Contract Rollover Goal and Means of Encouragement.

The contract rollover goal and means of encouragement are at the heart of the contract rollover task and are also the key to upholding and perfecting the contract system.

1. The goal of rolling over the contracts should be scientific and reasonable. In view of the state's current financial problems, when we determine the goal of rolling over the contracts, we should adhere to the principle of emphasizing stability, making small adjustments, and contributing more to the state, and we should comply with the state's industrial policy, so that the contract rollover is neither a simple extension of the previous contract nor is it a completely new contract. This is because although enterprises' productive capacity, product-mix, growth prospects, market elements and other conditions may change often, they still keep to a fixed pattern. We should eliminate whatever is unreasonable in the original contract and roll over the contracts according to how much profit the individual enterprises actually made. While ensuring the steady increase in the state's revenues, we are asking enterprises to attain higher economic efficiency. We should determine the rollover base and rollover percentage based on the individual enterprise's actual profit and amount of profit tax delivered in the previous round or during the last year of the previous contract to make contract rollover goal scientific and reasonable.

2. The management goals and the terms of the contract should be complete. There is no doubt that profit is the primary management goal, but there are other objectives, which include the following norms: (A) Delivery of profit or profit tax to the higher authorities; (B) technological transformation and appreciation of the value of fixed assets and the rate of serviceable equipment; (C) safety; (D) quality; (E) the rate of fund utilization; (F) the labor productivity rate; (G) reduction in the material consumption rate; (H) workers' training. They are a crucial part of enterprise management which should not be overlooked in the contracts.

3. We need to improve the means of encouragement and enhance the sense of permanence. Objectively, the existing method of extending big, one-time bonuses to the managers tends to exacerbate their short-term management behavior as well as the conflict between managers and producers. The method needs to be worked on and improved. We can try adjusting the basis of year-end bonuses. Managers who perform well and complete the contract responsibilities can expect regular raises. We can separate the managers into different grades and evaluate them regularly for promotion. We

can increase the benefits and wages of managers who excel and hold contests to choose the best plant supervisor or manager and so on. These are ways to complement material award with spiritual encouragement. This not only encourages the managers to link their short-term profit during the term of the contract with the long-term profit after the contract runs out but also reduces the conflict in the way they handle enterprises' internal allocation problem and creates a stable and harmonious work environment for the managers.

IV. Procedure In Rolling Over the Contracts

Work to roll over a contract should begin about three months prior to the contract's expiration. The major steps are: (A) Whether the contractor wants to renew the contract or not, he should make a report to the party giving out the contract on his work progress and how well he has fulfilled the contract. Contractors who wish to renew the contract should submit an application together with a bid for rolling over contract and a plant management proposal. (B) The contractor should make a final review of the previous contract. (C) The party giving out the contract should make a preliminary decision based on the above information. (D) After making a comprehensive study of the enterprise, the party handing out the contract should consult all parties concerned, especially the enterprise's party organization and workers' congress, and after careful calculation, scientific deliberation, and comparison in every direction, it should decide on a method to reward, penalize, and evaluate the contractors and settle on a program to roll over the contract. (E) The contractor wishing to renew the contract should be consulted in person about the contract rollover program (the terms are generally based on those set by the party giving out the contract and are rarely revised downward; if the contractor refuses those terms, the contract should be open to public bid.) (vi) Upon completing the negotiations, the parties giving out and accepting the contract will formally sign a rollover contract. (F) An enterprise workers' meeting (or worker's congress) should be convened, and the party giving out the contract may announce the contract rollover. The contractor renewing the contract sums up the performance of the previous contract and presents the goal and the key points of the renewed contract, which will be deliberated by the workers' congress before implementation. All works pertaining to rolling over the contract should be complete before the current contract expires.

V. Some Important Issues In Rolling Over the Contracts

Rolling over the contracts is an important and complicated task. We should pay special attention to the following issues: First, the contractors should have a positive attitude. Whether they wish to renew the contract or not, they should handle the matter properly. The terms set out in the application to renew the contract should be serious and accurate. Second, enterprises' own party organizations must strengthen their ideological and political work during the course of the contract to prevent major disruption in the rollover process and to

guarantee the normal course of production and other tasks. Third, during the rollover process, enterprises' management should tighten examination and supervision to prevent any rash behavior, especially prevent individual enterprises from suddenly giving out bonuses and in-kind awards. Lastly, the party giving out the contracts should be practical and realistic in rolling over the contracts and avoid using the same approach to deal with all situations. They should open bids to find other contractors to replace those who are not qualified or are unwilling to renew their contracts.

Forum Discusses Integration of Planned Economy, Market Regulation

90CE0358A *Beijing JINGJI RIBAO* in Chinese
10 Jul 90 p 3

[Article in "Theoretical Developments" column by He Minzhi (0149 2404 2535): "We Must Be Thorough in Finding Ways To Integrate the Planned Economy and Market Regulation"]

[Text] A "Special Forum on the Integration of the Planned Economy and Market Regulation," sponsored by the Chinese Society on Planning, the State Planning Commission's Research Institute, and the Qingdao City Planning Comission, was held recently in Qingdao. The participants held in-depth discussions on how to correctly understand and resolve the issue of integrating the planned economy and market regulation and the basic principles behind their relationship. It was decided that the integration of the planned economy and market regulation warrants further study in the following areas:

1. We need to find out how to define the scope of planning and market regulation in every sector, from the production to the construction, allocation, circulation, and consumption sectors. In other words, how do we draw the line between planning and the market? So far as the scope of planned management is concerned, there are three main areas we should look into: One, we need to determine how concentrated and how dispersed the state's finances, credit loans, foreign exchange, and goods and materials are at different times. How do we maintain overall congruity and promote balance between industry and agriculture; and within those two sectors and among the economy, cultural and educational undertakings, and national defense? How do we keep up the rate of growth and efficiency at the same time? After we have answered those questions, we can then decide on when to implement mandatory planning, how extensive the scope of mandatory plans should be, when to implement guiding plans, and then gradually define and standardize the mandatory plans and the guiding plans. Two, we need to find out how to set up a macroeconomic regulation and control system that centers around economic planning and is predicated upon the state's industrial policy. Three, we need to come up with some policies, measures, and major reform steps for different time periods to promote and guarantee the fulfillment of our economic plans, and as the situation

changes, we need to know when and how to make use of the proper policy, measure, and reform steps without going overboard.

2. We need to find out how to give play to planning as well as market regulations. Take industry for example. The most important thing is to increase the vitality of the manufacturers, especially the large- and medium-sized enterprises. When drawing up plans, we must remember to maintain overall equilibrium and structural balance. But if there is only balance and control and no effective measure to promote production development, our planning cannot be called a success. Our market must plant its foothold on developing production and serving the productive enterprises. Particularly, it must guarantee the fulfillment of the state's production and construction plans. We must not enliven circulation but stifle production.

3. We need to determine the method of integrating planning and the market. The important thing is to work on how to integrate the three integration methods. What kind of policy and measure do we need in order to make mandatory planning embody the law of value? How do we restructure the systems to turn the economic levers into a combined force that turns the mandatory plans into reality? How do we keep the market regulation from being reckless and still maintain great vitality?

4. We need to separate the planned management into different levels, sort out the relationship between the comprehensive departments and the industrial departments, as well as between the central government's macroeconomic regulation and control departments, and the local regulation and control departments at all levels. We want to make the national economy an organic whole and the local economies its component parts, but we also want the localities to consider the interest of the whole while taking advantage of local superiors to create local economies of different characteristics.

Commentator Cites Need for New State Asset Management System

90CE0358C Beijing JINGJI RIBAO in Chinese
12 Jul 90 p 1

[Article by JINGJI RIBAO commentator: "Set Up a New State Asset Management System"]

[Text] After more than 40 years of arduous pioneering work by the nation's people, China has accumulated hundreds of million yuan's worth of state assets. They play an important role in accelerating China's economic modernization and stabilizing the state's financial situation. State-owned assets were, are, and will always be the basis of the existence and the development of China's socialist system. Strengthening the management of state assets is the organic unification of development and reform and is vital to the effort to surmount the current economic difficulties, to realize the economy's sustained,

stable, and smooth development, and give play to the superiority of the socialist system.

There are a thousand things we need to do to strengthen the management of state assets, but ultimately they can be summed up into two words: "protect" and "raise." On the one hand, we need to protect from damage the state assets and the property rights to those assets. By determining the fund sources through physical inventory and getting to the bottom line, we can rectify the "disorder" and stop the "leaks." We must put an end to the attempts to misappropriate state assets in the name of "policies." All assets which are rightfully the state's should be put on the state asset management track. On the other hand, we need to raise the state-owned asset management standards and solidly raise the use-efficiency of the state's assets. With respect to the management of the stock of assets, we should make setting up a property rights constraining mechanism an important link in the deepening enterprise reform process. We should include the responsibility of keeping intact and increasing the value of state assets in the new round of contracting and set up a new, category-by-category responsibility system to assess the return on investment. We need to treat the proper circulation and optimal allocation of the stock of assets as something of vital importance and mobilize the state-owned enterprises to adopt such efficient formats as enterprise groups, joint ventures, mergers, combinations. With respect to the management of the incremental assets, currently we should emphasize tracing and supervising the return on investments, strengthen the management of the investment of state-owned fixed assets, and keep a close watch on any report of loss or write-off of state funds.

To achieve the goal of strengthening management, we must set up a new state asset management system. In his "Government Work Report" presented at the first session of the Seventh National People's Congress in 1988, Premier Li Peng urged that we "concentrate on setting up a state asset management system." In essence, he wanted us to start from the socialist system's goal of self-perfection, and thorough reform set up a new state-owned asset management system which suits the socialist planned commodity economy. Therefore, all localities and departments must comply with the State Council's circular and promptly set up or designate the necessary organs to take charge specifically of managing the state's assets. This does not contradict the order to streamline the administrative structure; to the contrary, this will facilitate efforts to create a streamlined, hard-working, and honest government and is in keeping with the effort to reform the local administrative structure.

Forum on Development of Enterprise Groups Held in Guangdong

90CE0360A Beijing JINGJI RIBAO in Chinese
12 Jul 90 p 2

[Article by Zhang Xusen (1728 4872 2773), Xie Yiwen (6200 3015 2429), and Qin Sulin (4440 5685 2651):

"Development of Enterprise Groups Meets a Historical Demand of the Socialist Commodity Economy"]

[Text] *Editor's note: In late June JINGJI RIBAO ZHONGGUO JIYEJIA publishing house, the Guangdong Association of Entrepreneurs and Economists, and the Structural Reform Office of the Guangdong People's Government jointly organized a "forum on the development of enterprise groups in the 1990's." Vice Governor Kuang Ji [0562 0679] delivered the keynote address and many entrepreneurs discussed their experiences. Below we summarize their views by subject for the readers' reference and reflection.*

Booming Enterprise Groups

Kuang Ji (vice governor of Guangdong): We have been encouraging and supporting the development of enterprise groups each year since 1983. Most of the enterprise groups established in the province over the last few years are interregional, inter-industrial, and export-oriented. The approach is correct and the results have been quite good. The fact that they have withstood all sorts of tests proves that enterprise groups are full of life.

Yi Zhenqiu [2496 2182 3808] (director, Structural Reform Office, Guangdong Province): There was a total of 266 enterprise groups registered with industry and commerce administrative bureaus at the provincial and municipal levels at the end of last year, including 19 capitalized between 100 and 800 million yuan, 56 capitalized between 50 and 100 million yuan, and 68 capitalized between 30 and 50 million yuan. Enterprise groups have become the main force of the national economy.

He Wenchun [0149 2429 2504] (general manager, Wanbao Electric Group): Founded in April 1988, Wanbao Electric group boasts 43 member enterprises, over 10,000 sets of general and specialized equipment, 30 fairly large production lines, 780 million yuan in foreign exchange, more than 100 million yuan in working funds, and a product lineup consisting of over 100 varieties in nine broad categories. In 1988 its total output value and foreign exchange earnings were 1.648 billion yuan and \$57.42 million, respectively, and it paid 226 million yuan in taxes and profits. The Wanbao Group has become one of the eight largest refrigerator makers in the world.

Li Xiuse [2621 4423 2773] (chairman of the board and general manager, Guangdong Hemispheric Industrial Group): Our enterprise group comprises 16 core enterprises, 4 enterprises to which we are closely related through joint investment or management, and 12 enterprises with which we have loose cooperative arrangements. We have over 40 large automated production lines, over 1,900 pieces of specialized and general equipment turning out over 100 varieties of products in 7 broad groups. In 1989 the group's total output value was 420 million yuan; sales, 560 million yuan, and foreign exchange earnings, almost \$8 million. It paid 40 million yuan in taxes and profits.

Zhang Xusen [1728 4872 2773] (chief, Enterprise Section, Structural Reform Office, Guangdong Province): We did a study on Zhongshan City recently and discovered that enterprise groups had been making rapid headway there. Ten industrial enterprise groups have come into being turning out seven major categories of products including 100 million washing machines, 100 million cans of fine chemical vapor, over 11 million square meters of glass mosaic, 25 million meters of complex aluminum foil packaging materials, and 20,000 tons of biscuits. In all these categories, the enterprise groups are the nations' leaders. In 1989 their industrial output value, profits and taxes, and export output value accounted for 56 percent, 53 percent, and 53 percent, respectively, of the total of the city's industrial enterprises. They are playing a pivotal role.

The Demands of Modern Commodity Economic Development

Yi Zhenqiu: The development of enterprise groups is in line with the trend of the modern commodity economy. Market competition is fierce in the modern commodity economy. By itself an enterprise cannot survive. To make it amid competition, enterprises must transcend departmental and sectoral boundaries and work hard at developing enterprise groups. We must also see that while our investments have not been inconsiderable over the past four decades, assets have not been put to active use. Enterprises which lost money continue to do so. The most feasible way to put a large amount of idle assets to active use is to establish enterprise groups. Strong enterprises must promote their weaker counterparts.

Bei Zhaohan [6296 0340 3352] (general manager, Guangzhou Baiyunshan group): The establishment of Baiyunshan Group has broken down regional and sectoral barriers as well as the divisions between different trades and ownership systems. It has brought together the strengths of the group, reaped the efficiency of scale, expedited the optimal combination of capital goods and the rational distribution of funds, formed such multi-dimensional comprehensive functions as production, sales and marketing, technological development, the raising of short-term funds, and domestic and foreign trade, thereby creating for itself a number of advantages, including a full lineup of specialties, formidable technological forces, and tremendous development potential. Baiyunshan consists of 42 member enterprises and is extensively associated with more than 30 units in scientific research, banking, commerce, construction, and services. It has set up seven joint ventures and three offshore joint ventures. After overcoming difficulty after difficulty, the enterprise group kept up the growth momentum last year, boosting its total output value and profits and taxes by 14.38 percent and 8.18 percent, respectively, over 1988.

Ceng Qunhui [2582 5082 1920] (deputy director, Guangzhou Knitting Industrial and Commercial Group): Our enterprise group was founded in June 1987 and has played an important role over the past three years. To

begin with, it has promoted production-marketing integration, increased output, and stabilized sales. Second, it has improved product quality, developed new popular and marketable products, and enhanced product competitiveness. In the past few years, it has introduced many lines of T-shirts, children's wear, and coordinates. It has also expedited reform in production processes and in printing, thereby reducing materials consumption, cutting costs, and creating hundreds of new prints. Third, member enterprises have been supporting, relying on, and promoting each other as they grow together, ringing up 700 million yuan in sales in all in 1989.

He Wenchun: Judging from the practice of Wanbao Group during the past two years and more, an enterprise group mainly performs these five functions: 1) It constitutes a community and brings together production, buying and selling, scientific research, trade and industry, and trade and commerce under one roof. 2) It boasts considerable S&T research capability and an ability to develop new products; 3) It has a strong market adaptability; 4) It can compete and make sales; and 5) It has the ability to break into the international market. According to our projections, exports this year will constitute 31 percent of the group's total output value and foreign exchange earnings will top \$100 million. Wanbao Group has established a network of sales outlets in North America, Western Europe, Southeast Asia, Hong Kong and Macao. Its major products have been certified as safe in America, Canada, Australia, and Saudi Arabia and are registered in 16 nations and regions.

Kuang Ji: Developing enterprise groups is an objective demand of developing a modern commodity economy. Guangdong is small but has many enterprises, all rather weak in technology, production, and product R&D. During the past 40 years, most Guangdong enterprises started from scratch, making do with whatever was available. Only by developing enterprise groups can they increase their economic muscle and participate in the international marketplace effectively.

The modern commodity economy requires the enterprise to pay attention to several areas. First, generate favorable publicity for its commodities to create a positive image in the mind of the consumer and make their special features and good points stand out. Second, establish an extensive sales network and find a good agent to take care of sales. It is difficult to rely on self-marketing alone to open up sales channels, especially those in the international market. Third, offer good after-sale services. Fourth, take pains to collect consumers' opinions and keep up with market information. Both the collection and processing of information is closely tied in with modern information transmission methods. To put information to work requires an enormous amount of manpower and financial and material resources. Fifth, create a powerful technological development agency. Small enterprises working alone will not be able to meet these requirements. In the long haul, there is only one way to develop an export-oriented

economy, participate in international competition, and claim one's place in the international market, namely the establishment of enterprise groups.

Development Prospects for Enterprise Groups in the 1990's

Liang Guohao [2733 0948 6275] (general manager, Nanfang Building Joint Stock Group of Companies): In the 1990's, our strategic business goal is to have our feet planted here, orient ourselves to the entire nation, create conditions for setting up enterprises overseas, strive to build a "first-rate company," and develop a diversified enterprise group and modern trading house that offers multiple services but whose core business is commerce. At present, we are putting together special counters for Chinese commodities in a number of department stores overseas and setting up branch companies and jointly operated trading companies abroad.

Qiu Guisheng [6726 2710 3932] (chairman of the board and general manager, Zhongguo Zhujiang Imported Auto Parts Enterprise Group): This is what the Zhujiang Group is doing. First of all, it has built a 60-million-square-meter auto parts city, which will bring together at one site the thousands of auto parts and components now scattered across the nation's provinces and municipalities at the group's 71 member enterprises, thereby improving their marketing ability. Moreover, it has put the coordinated production by member enterprises for Panda Auto Works on a sound footing, which should give the enterprise group staying power. Second, it has set up a shareholding company and created an export-oriented auto-parts production base. By raising funds extensively in society and by attracting foreign capital, the enterprise group has decided to expand its scale, import new technology, put up a base to produce parts and components for all sorts of imported vehicles, develop new products, organize the export of auto parts, and help them fight their way into the international marketplace.

Liu Shaoan [0491 7300 1344] (general manager, Guangzhou Shitou Industrial Company, Ltd): The Shitou Group consists of nine wholly Chinese-owned enterprises, seven Sino-foreign joint ventures, two Sino-foreign contractual joint ventures overseas, and eight contractual joint ventures within China. We are a diversified enterprise group but concentrate on one industry. Our goal is to quadruple the gross industrial output value by 1995. We intend to consolidate the production of sugar and electrical products, our major industries, adjust the product mix, and upgrade our products through multiple processing.

Bei Zhaohan: Our development focus in the short haul is the continuous optimization of the industrial structure and product mix. We should vigorously open up the domestic and international markets, improve the scale efficiency of the group, and make the most of it. On the one hand, the enterprise group must further improve internal management, sorting out the relationships

between the group and its member enterprises. On the other hand, the group must straighten out property rights relations and gradually put together a shareholding company.

Qiu Haodong [8002 3185 2639] (general manager, Zhu-jiang Canned Food Enterprise Group): This enterprise proposes to develop in three steps. In the first step, we must go all out to develop the group's backbone enterprises, strengthen basic management in the enterprises, and improve their margin of profit and economic prowess. In the second step, the enterprise group must make use of high technology, sophisticated equipment, and its considerable economic muscle to improve the management of enterprises semi-closely associated with it. In the third step, we will gradually step up investment in enterprises in the same industry in the province and other enterprises with which we are loosely associated and expand enterprises with which we are semi-closely related. Our goal is that by 1995 the group's core enterprises and joint ventures will have an output value of 840 million yuan; export deliveries, 500 million yuan, and profits and taxes, 100 million yuan.

Peng Shaohui [1756 4801 6540] (general manager, Guangzhou Iron and Steel Company, Ltd): During the Eighth 5-Year Plan, Guangzhou Iron and Steel Company Ltd will produce 800,000 tons of steel a year, up from the current annual output of 500,000 tons. We will mount an aggressive push for the international market and set up sales outlets and trial factories overseas in an effort to make the group export-oriented. Right now we are building a steel rolling production line in Thailand to provide technical services and cooperation in coordinated equipment.

Wu Chixin [0124 3069 2450] (general manager, Guangdong Development Bank): Guangdong Development Bank is developing into a socialist bank that is commercialized and internationalized and practices the shareholding system. First of all, we plan to acquire several financial companies to make ourselves stronger, establish a real estate company, and go into the jewelry business. We also intend to explore the idea of creating a class 2 shareholding bank. Second, we will adhere to the road of commercialization in our operations. A variety of financial tools will be used. A foreign exchange regulating market will be opened up. Third, we will go international gradually and increase our business dealings with banking institutions overseas.

Proposals: Make Laws for the Development of Enterprise Groups Without Delay

Bei Zhaohan: In my opinion, we should promptly come up with an appropriate policy for enterprise groups with large and mid-sized enterprises as their backbone. This way enterprise groups will have a chance of developing into the "main force" of enterprises. Some suggestions are, first, strengthen macroguidance. The province and municipalities may consider making local rules and regulations before the state promulgates the "Company

Law." Second, sort out the different levels of government management and their relations with one another. Right now no one single agency is in overall charge of the process from application approval to management. It is proposed that the government clearly designate and authorize one agency to handle and coordinate in a centralized manner on behalf of the government all major problems that an enterprise group may encounter. Third, it is proposed that the government apply preferential policies and give economic support to a handful of influential enterprise groups, putting them under as few management levels as possible. Financially, enterprise groups should enter into direct contracting with the finance department. Operationally, they should be allowed to enter into contracts with foreign businessmen, put together projects, open branch companies, and expand their scope of business in light of the demands of foreign markets. They should also be allowed to set prices for products outside government control and to determine their own fixed assets investments provided they have the ability to repay the loans they take out. As far as employment is concerned, enterprise groups should be allowed to increase or decrease their personnel and set their own wage levels. They may recruit cadres, technical staff, and workers in society directly. The general manager should have the power to hire his deputies and to send workers abroad on study missions or to negotiate. As for goods and materials, large enterprise groups should enjoy priority in the supply of needed energy and raw materials as much as possible.

Liang Guohao: Legislation on the operations and management of enterprise groups should be drawn up without delay. In making laws on enterprise groups (including their internal management systems and methods of democratic management), we should use international enterprise groups for reference and combine the foreign experience with the reality in China. Diversified operations and multi-functional services should be approved on a priority basis. Enterprise groups should also be given support when it comes to funding and industry and commerce registration.

Yi Zhenqiu: In the final analysis, we must solve the basic problems if we are to develop enterprise groups in a big way. First, the impediment of the "three no-change" policy must be removed. An independent assets management system should be created gradually and government-enterprise relations should be further sorted out. Second, the tax system should be overhauled. Currently the circulation tax is the primary source of government revenues. That has got to stop. The rush by localities to invest in industrial fixed assets must be checked. Third, the "Company Law" should be promulgated as soon as possible. The legal person status and legal person assets of enterprise groups should be firmly established. Fourth, reform the enterprise financial accounting system.

It is the general trend to develop enterprise groups. These days, however, we have a "hot-at-two-ends-but-cold-in-the-middle" situation. The central

government has been advocating and encouraging the development of enterprise groups and the groups themselves have similar aspirations and needs. Standing in their way, however, are the interests of localities and sectors. To develop enterprise groups, therefore, we must begin by looking at the nation as one chessboard and linking it through a shareholding system. Second, preferential policies should be drawn up for and strong economic support given to large mainstay enterprises that have a solid foundation, are technically advanced, produce name-brand products, and make the grade so that they have the wherewithal to establish large enterprise groups. Third, appropriate administrative orders should be used if necessary. We must demand that certain small enterprise groups get rid of the outdated idea that one would "rather be a little fish in a big pond than a big fish in a little pond." They should make the general interest their primary concern. Only thus can we hope to develop and improve enterprise groups.

Official Urges Dual-Level Economic Regulation, Control

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[Article by Wu Minyi (0702 2404 0001), Deputy Director of the Economic Research Institute of the Zhejiang Provincial Planning Commission: "Build an Integrated Dual-Level System of Regulation and Control for the Central Authorities and Localities"]

[Text] The mark of our presently existing macroeconomic regulation and control is first its impermanence. It is not looked upon as a normal method or element in the economic operational process. It is rather an emergency remedial measure that had to be taken in the wake of economic chaos. Second, it is rigidly uniform. The policies adopted have no regional, departmental, or industrial diversity. As a result of these two characteristics, even though we stress the need to simultaneously utilize economic, legal, and administrative means when exercising regulation and control, the fact is that in the end we only use administrative means. Economic and legal means do not play a role, or only a minor one.

In this manner, a macroeconomic method of regulation and control can in the short-term produce certain results, such as reducing the scope of capital construction or controlling price rises. However, because administrative means are primarily effected through coercion, they not only cannot basically resolve these problems and thoroughly do away with the systemic factors that caused the problems, they can easily produce new ones.

Local "countermeasures" are becoming more and more prevalent with respect to the regulation and control by the central authorities. For example, some local specialized banks, in order to cope with the state's control of funds, have stopped turning over tax proceeds to the state treasury in a timely manner and in compliance with state treasury regulations and instead have retained and used these proceeds. Similarly, because the central

authorities have stipulated that Sino-foreign joint venture projects do not come under the category of capital construction that is to be controlled, certain localities have taken advantage of this loophole by doing everything in their power to set up ties with foreign businesses or with Chinese organizations abroad or in Hong Kong. Consequently, as long as foreign businesses and these types of organizations are making investments, those capital construction projects that were originally supposed to be discontinued can suddenly transform themselves into "Sino-foreign joint venture projects" and continue their existence.

There is a deep-rooted reason for localities countering the policies of the central authorities in this manner. Following implementation of separate budgetary plans for central and local authorities, the localities, wanting to maintain their own development and solve their own budgetary problems, had to give consideration to their financial revenue. To achieve this, they often stressed short-term investment results and ignored the delayed effects of long-term development. If certain projects should be curtailed for macroeconomic reasons, the localities do what they can to preserve them. This situation was further intensified after the localities became responsible for their own finances. The present method of evaluating cadre achievement has also caused localities to place their own interests first and made them unwilling to assume the functions of macroeconomic regulation and control. A local cadre's achievements are evaluated locally. If he pays a great deal of attention to macroeconomics and does not consider local interests, irrespective of what he has accomplished, he probably could not, even in his own mind, be able to stand up to it. If he does not pass this test, he will assuredly lose his position during the elections at the next local people's congress. Given these circumstances, how can local governments conscientiously implement the macroeconomic policies of the central authorities?

Following reform of the economic structure, the power of the localities has undeniably been expanded. However, when the central authorities were decentralizing power and handing it over to the localities, they did not properly define its scope, nor did they make legal guarantees with respect to its exercise by localities and put into effect the necessary macroeconomic supervision and control. As a result, economic life presented a chaotic aspect that had more to do with a weakening in the ability of central authorities to exercise macroeconomic regulation and control than it did with the unsound practices of the local governments.

A question that needs further clarification is whether strengthening the central authorities' capability for macroeconomic regulation and control would necessarily mean concentrating all the functions of regulation and control in their hands and without any of them being assumed by the localities. The answer is no. This is because completely concentrating the macroeconomic functions of regulation and control in the hands of the central authorities requires two conditions, information

sources, and motive force mechanisms. It is highly doubtful that information can be collected if the functions of regulation and control are only exercised by the central authorities. The volume of minute bits of information is enormous. For example, the results of market operations can give rise to countless pieces of information, reflecting both normal and abnormal operations. The identical issue can, in different regions or cities, produce differing information because the role of the various factors involved is not the same. Consequently, when a massive amount of jumbled up information is transmitted to the policymaking departments of the central government for their exclusive disposition, the problems are huge.

Even though the central authorities and the localities are on identical ground when it comes to motive force mechanisms, inconsistencies still frequently exist. This is because things are decided on the basis of local self-interest. The motive force of localities is, to a large extent, similarly affected. Under the traditional system, we denied this, and consequently, localities inherently lacked motive force. Following economic structural reform, the localities obtained certain powers. However, if it was only limited to managerial power; there was no power to regulate and control; that power was entirely in the hands of the central authorities with the central authorities regulating problems that the localities should themselves be regulating; then the enthusiasm of the localities was not likely to remain very high, and they would also suffer a decline in their ability. Local unwillingness to implement the macroeconomic policies of the central authorities and unwillingness to assume the required responsibility for local economic development can be considered a reflection of their decline in enthusiasm.

For these reasons, I propose taking another course of putting into effect regulation and control at different levels, with the central authorities and the localities (which hereinafter refer to the provincial level) simultaneously exercising these functions. Specifically, information on microeconomic activities would be first transmitted to the localities. Those problems (information) that could be handled by the localities themselves they would handle. Afterwards problems (information) they could not handle or those which actually should be handled macroeconomically would be transmitted to the central authorities for disposition by them. This would implement governmental regulation and control twice, the first time by the localities and the second time by the central government. Because the information received by the central authorities will already have received preliminary processing and handling, its accuracy will be greatly improved. This will enable the central authorities to concentrate on handling a few larger problems and obviate the need for them to tackle all the problems both large and small. At the same time, because localities will have the power to regulate and control their own problems, this could have the positive effect of arousing their enthusiasm. Of course, this type of multilayered discussion makes it easier to clarify problems and in practice

simultaneously affects regulation by the central authorities, the localities, and the market.

Regulation and control at different levels by the central authorities and the localities do not mean that the localities can exercise their own regulation and control with total independence. They must first conform to the overall requirements of macroeconomic regulation and control. This was determined by the basic trend of China's reform, namely, integration of a planned economy with market regulation.

Another principle which we have to consider with different levels of regulation and control is that of guaranteeing the absolute authority of the central authorities and at the same time fully bringing into play the positive role of the localities. Although the central authorities and the localities both have the authority to regulate and control, their status and function are not the same. The scope of regulation and control by the central authorities encompasses the entire macroeconomy. Consequently, the authority to regulate and control any macroeconomic aspect must belong in their hands.

PROVINCIAL

Guangdong Urban Residents' Income, Consumption Rise

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[Text] A sample survey conducted recently among some 1,500 urban residents of Guangdong Province showed that in the first half of this year, both their income and their consumption witnessed a substantial increase over the corresponding period of last year.

The first six months of this year also saw a rapid increase of Guangdong's bank deposits. The per capita monthly income of Guangdong urban residents reached 175.64 yuan, representing a 6.2 percent increase over the corresponding period of last year. Their net income showed a 7.8 percent increase. Their food and clothes consumption also registered a sharp increase in the same period, while their per capita monthly expenditure reached 161.58 yuan, representing a 0.5 percent increase over the corresponding period of last year. With price hikes factored in, the per capita monthly expenditure of Guangdong urban residents registered a 2.1 percent increase over the corresponding period of last year.

In the first half of this year, Guangdong urban residents' per capita bank deposits reached 32.99 yuan.

FINANCE, BANKING**PBC Reviews Savings Deposit Growth, Sluggish Market**

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3 Jul 90 p 3*

[Article by Zhao Haikuan (6392 3189 1401), Director of the Financial Research Institute under the People's Bank of China: "Relationship Between the Growth of Savings Deposits and a Sluggish Market"]

[Text] Editor's note: The biggest problem we now have in economic development is a sluggish market and declining production speeds. Some people blame this on the excessively fast growth of savings deposits, saying that it has restricted the growth of consumption. What is the actual relation between savings deposits and consumer market? Is the current sluggish market caused by the substantial growth of savings deposits? Today we published an article written by Zhao Haikuan, director of the Financial Research Institute under the People's Bank of China. This article analyzed the above issue. We believe that you will find it enlightening.

I. The Sharp Increase of Savings Deposits Is the Main Factor as Well as the Major Sign of Success for China's Improvement and Rectification Campaign.

In recent years, China's savings deposits increased sharply. In 1989, the savings deposits of rural and urban areas in China increased 133.4 billion yuan, an increase of 35 percent over the year-end balance of 1988 and equivalent to 1.83-fold of the increase of 72.8 billion yuan in 1988. Since the beginning of 1990, the increase rate of urban and rural savings deposits has gained even more momentum. In the first quarter, urban and rural savings deposits increased almost another 1-fold over the corresponding period of 1989.

The sharp increase of savings deposits is the major factor of the outstanding achievements of China's improvement and rectification campaign. In 1989, China's net money supply was 21 billion yuan and the circulation of market currency increased 9.8 percent as compared to that at the end of 1988. The money supply and the increase rate were not only much lower than 1988 figures—68 billion yuan and 46.7 percent—but also lower than the plan of 1990. In the first five months of 1990, the monetary situation was even better and the amount of currency withdrawn from circulation showed an increase of over 2-fold compared to the corresponding period of 1989. Since money supply is basically under control and the difference caused by aggregate demand outstripping aggregate supply has been narrowed, the value of currency and prices have become gradually stabilized.

In the meantime, banks in China increased their loans to different sectors of the national economy by over 180 billion yuan in 1989, over 120 billion yuan alone in the fourth quarter. In the first few months of 1990, bank

loans increased several fold as compared to the scale of the corresponding period of 1989. All this has provided support and guarantee for a trend of economic development demonstrated by the fact that the GNP increased 3.9 percent and national income increased 3.7 percent in 1989 and industrial production increased two percent in April 1990.

During this period China could keep money supply under proper control and increase loans by a large amount because, most importantly, China managed to increase savings deposits by a large margin. Currently, savings deposits have become a major source of funds for banks. About two-thirds of new loans issued by banks and credit cooperatives in 1989 came from urban and rural savings deposits. Other sources of bank funds are small in quantity and limited in the potential of growth. Therefore, if savings deposits did not increase sharply in 1989 and if the increase of savings deposits were the same as that of 1988, namely minus 60 billion yuan from the actual increase, banks would have lost over 60 billion yuan of savings deposits and most of this loss would have to be compensated with new issues of money. This would have markedly increased the amount of currency circulating in the market and caused the value of money to decline and prices to rise faster.

The sharp increase of savings deposits is not only an important cause but also a major sign of the success of the improvement and rectification campaign. The fact that the people have enthusiastically deposited their money in the banks shows that they personally feel that the depreciation of currency and the increase of prices have slowed down, that the economy will grow steadily, and that the value of currency and prices will develop in the direction of stability.

II. We Cannot Blame Commodity Market Slump on the Sharp Increase of Savings Deposits

The savings deposits of urban and rural residents are very closely related to the consumer goods market. If the cash and securities holdings of residents remain the same, the amount of income used for consumption increases when the amount of income used for savings declines. In other words, if savings increase, consumption will decline. Because of this, China has always used savings deposits as a basic measure to control the circulation of currency in the market and regulate the supply and demand situation of commodities.

However, we should not think that savings deposits have an absolute influence on the commodity market. They appeal more to disposable income and money used to buy things for the preservation of value. Their appeals on money used for normal consumption are very limited. In other words, they can help residents take things less seriously than money or even reduce their activities of overbuying and panic buying, but they cannot make residents buy fewer or stop buying normal consumer goods and cause a market slump. This is because Chinese banks have a basic principle for savings deposits—

voluntary deposits and free-will withdrawal. No one has the right to interfere with someone else's decision on how much income he can use for immediate consumption and how much for savings. He has the total freedom to make his own decision. Before, under the situation of inflation and the depreciation of money, depositing money in the banks not only could not produce interest but might lose capital in some cases. So bank deposits were not very attractive. Currently there is no better way to preserve the value of money than to put it in savings deposits. So the part of money which under normal circumstances is used to buy commodities is attracted into the banks, causing a slump of the commodity market. In other words, the sharp increase of savings deposits did not cause a market slump. Instead, the market slump caused savings deposits to increase sharply.

Let us analyze this at a deeper level. Banks will not keep savings deposits and not use them. On the contrary, they will use them all on society through loans. When they absorb savings deposits, they take away some purchasing power from the market. But when they issue loans, they release purchasing power back into the market. So they only change the structure of purchasing power, namely reduce the purchasing power of consumer goods and increase the purchasing power of capital goods; they do not change the total amount of purchasing power. Take 1989 for instance. Banks' resources could not meet the demand for funds, and banks had to issue an additional of 21 billion yuan of currency. Since all savings deposits were lent out in the same year, whether or not the sharp increase of savings deposits has caused a market slump becomes a question of whether or not the difference between bank loans and deposits, more accurately the difference between banks' capital resources and utilization, namely the amount of money supply, is appropriate.

The economic circle has different views on this issue. I think that China's money supply in recent year has been basically appropriate. The fact that prices are still rising slowly shows that there is still too much currency circulating in the market. Therefore, we cannot say that the obvious reduction of money supply and the sharp increase of savings deposits have caused the current commodity market slump.

III. We Cannot Use the Method of Reducing Banks' Savings Deposits To Solve the Problem of Sluggish Commodity Market

Then what is the cause of the current sluggish commodity market? There are mainly five points:

1. During the initial period of the improvement and rectification campaign, China implemented a strict retrenchment policy, reduced the scale of capital construction, and controlled the growth rate of consumption funds. In 1989 China's fixed-asset investment was 400 billion yuan, a decline of 50 billion yuan or 11 percent from 1988. After deducting the factor of inflation, the

actual reduction was over 20 percent. This caused a decline in the demand for building materials, related capital goods, and consumer goods.

2. An important measure of improvement and rectification is to clean up and consolidate companies. By the end of January 1990, China cleaned up 60,865 companies, accounting for 20.4 percent of the total number of companies before the clean-up which was 299,000. This reduced the number of unnecessary middle links in commerce and suppressed the false demand for commodities.

3. China has more effectively suppressed group purchasing power and resolutely adhered to the building of a clean government. This caused a decline in the sales of commodities which were sold in large quantities to units such as automobiles, Maotai spirit, and brand cigarettes.

4. People have the mentality of "buy high and not low," which is normal among consumers. After the panic buying during July and August 1988, such mentality grew stronger among some people. This panic buying not only materialized some purchasing power prematurely but also made some people realize that since China's current commodity economy is not very developed, it is not very easy for individuals to change the goods they bought from the market into cash and that buying commodities which they have no immediate use for not only will immobilize their money but may cause their commodities to suffer from damage and depreciate. So few people want to buy things in advance and some people even put off some purchases which should be made currently, causing a decline in current sales.

5. Some commodities have poor quality and high prices. Some commodities are of low quality, unmarketable, and unwanted. The prices of some commodities were raised too high in 1988. They have not been readjusted lower and remained high ever since.

6. To overcome the commodity market slump, increase the sales of the finished products of enterprises, and appropriately speed up economic development, we must adopt proper measures in accordance with the above causes. Such measures may be summarized as follows: First, we should appropriately increase some fixed-asset investment and some more working fund loans. Second, we should make great efforts to unclog commodity circulation channels and increase the sales of commodities, especially the amount sold to rural areas. Third, we may consider total decontrol for the sales prices of some high-grade consumer goods such as Maotai spirit, brand cigarettes, color TVs, and refrigerators.

Decontrolling the prices of these commodities now can lower the price level of commodities and carry out price reform while prices decline. It can increase the sales of these commodities and alleviate the shortage of working funds for enterprises; reduce the payment of loan interest and other related expenses and lower enterprises' cost of

production; and stimulate and make the whole commodity market lively and industrial production speed to pick up again.

If we do not adopt measures in these fields and insist on blaming the commodity market slump on the increase of savings deposits and adopting measures to reduce banks' savings deposits, to squeeze them into the market, and to encourage people to buy more and revitalize the market, we certainly will not be able to achieve what we want to achieve.

Causes of Capital Shortage Analyzed

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[Article by Sun Zhixin (1327 1807 2450) in the Column of "Weekly Economic Observation": "Where Is the Crux of the Fund Problem?"]

[Text] At present, the fund problem has become an important factor restricting the development of industrial production. On the surface, this problem seems to be a reflection of insufficient control of the scale of credit and the total amount of funds. But an in-depth analysis of the causes shows that the crux of the problem lies in the irrational structure and the poor efficiency of the use of funds.

Everybody knows that the irrational product mix has, on the one hand, caused a structural imbalance between existing and newly-extended credit and, on the other hand, caused a large number of products to stockpile and funds to be immobilized. In 1989, nearly 100 billion yuan of finished products were stockpiled across the country. Even now, many enterprises are still using loans to produce goods that are stockpiled. Under these circumstances, it is very difficult for banks to readjust the structure of credit funds and increase the efficiency of the use of funds.

At the same time, due to a market slump, not only consumer goods are seriously overstocked, some investment products are not selling either. The amount of enterprise funds tied down in three items (finished products, delivered commodities, and collectible payments on goods) has increased by a large margin. According to the statistics of 4,188 enterprises which have accounts with the Industrial and Commercial Bank of Jiangsu Province, at the end of February 1989, the above three funds tied up a total of 20.61 billion yuan, amounting to about 20 percent of all circulating funds of industrial enterprises at and above the township level in Jiangsu Province. In order to reduce the amount of interest they have to pay on bank loans, some commercial enterprises misuse the funds of industrial enterprises, which is a very common phenomenon. This makes it very difficult to clear debts. Even though banks have released some loans as starting funds for clearing debts, because some units borrowed money after they cleared their debts or as they were clearing their debts, the percentage of payments collected on time is very low

and the tendency to slow capital turnover has not been reversed fundamentally. This has seriously affected the normal production of enterprises.

In addition, another reason for the fund shortage is that enterprises do not have enough of their own circulating funds. On the other hand, however, enterprises have a large amount of funds floating outside production funds. By lying about their profits, some enterprises called part of their circulating funds profits and used them for consumption or capital construction purposes. Some enterprises which have stopped all or partial production relied on bank loans to pay their workers wages, thus turning circulating funds directly into consumption funds.

In order to solve the problems facing enterprises promptly, it is necessary to properly enlarge the scale of credit, but we must not loosen our control of the scale of credit because of this and simply concentrate on stimulating the total amount of credit. The basic solution for enterprises' fund shortage should be deepening the reform of the monetary system, readjusting fund structure, and increasing the efficiency of the use of funds.

1. Strengthen the management of credit funds. We should exercise three-level supervision and control over the scales of the state comprehensive credit plan, the credit plans of other monetary institutions, and the direct short-term market funds. We should provide timely feedback on the changes in loan structure to guarantee that funds are used in the correct directions and proper amounts. Under the prerequisite of persisting in the control of the total amount of funds, we should also pay attention to mastering the flexibility and appropriateness of the credit policy.

2. Do a good job in the readjustment of credit structure. The readjustment of credit structure should focus on readjusting the amount of existing and newly extended loans and the structure of enterprises' internal funds, including the ratio of fixed-asset loans to liquid asset loans, the ratio of enterprises' own circulating funds to bank loans, and irrational use of loans by enterprises. We should ensure that limited funds are used where they are needed the most. First they should be used to guarantee the needs of key state industries, trades, and enterprises.

3. Vigorously and prudently develop capital markets and increase the efficiency of the movement of funds. We should continue to expand the service of horizontal lending and borrowing of short-term funds and fully utilize the temporal and regional differences to regulate capital surplus and deficiency and raise the use rate of funds. In addition, we should also widely promote the practice of giving credit to commercial notes and change the practice of enterprises delaying payments to one another. Through the discounting or rediscounting of commercial notes or the trading of short-term bonds, we should accelerate the circulation of funds and reduce the ratio of unsecured loans.

As far as enterprises are concerned, the key to alleviate the fund problem lies in the development of marketable commodities and the reduction of commodity overstocking. In the meantime, we should advocate using commercial notes to speed up capital turnover.

Seychelles Receives 6 Million Rupees in Development Funds

90AF0599Z Victoria SEYCHELLES NATION
in English 7 Aug 90 pp 1, 2

[Text] China is to provide Seychelles with a R6-million loan, without interest, to fund development projects, equipment and technical cooperation.

The loan will be provided under an agreement for economic and technical cooperation which was signed in Beijing on Saturday by Planning and External Relations Minister Danielle de St Jorre and the Chinese Minister of Foreign Economic Relations and Trade, Zheng Tuobin.

The signing followed separate talks between Mrs de St Jorre—who is on a week's visit to China accompanied by her first secretary Alain Butler Payette—and Prime Minister Li Peng.

Another meeting was held with Foreign Minister Qian Qichen the same day.

The Ministry of Planning and External Relations said in a press statement yesterday the 5 million renminbi (approximately R6 million) loan was repayable over ten years as from the year 2000.

The Ministry said Prime Minister Li stressed the importance his country gave to developing and consolidating its relations with Africa.

"There are no conflicts of interest," he was quoted as saying. China's relations were based on a "genuine and sincere" desire to promote cooperation and goodwill among nations, he added.

The meeting with French Minister Qian Qichen touched on a broad range of international issues, the Ministry said, including ways of increasing cooperation between the two countries.

Mr Qian congratulated Seychelles on its progress, saying its development had "attained a level that can be envied by many countries."

"We are much attached to cooperation between China and Seychelles and will continue to contribute to your development efforts as much as possible," the Chinese Foreign Minister was quoted as saying.

The French press agency AGENCIE FRANCE PRESSE reported on Sunday that Mr. Qian also expressed China's support for the campaign by Seychelles and other Indian Ocean countries to turn the region into a zone of peace (see Monday's NATION).

With Mr Zheng, Mrs de St Jorre reviewed current cooperation between the two countries, with both sides agreeing there was no need for constant consultation to resolve bottlenecks in certain projects.

SMALL-SCALE ENTERPRISES

Small Shenyang Firms Benefit From Leased Management

90CE0435A Beijing GONGREN RIBAO in Chinese
22 Jul 90 p 1

[Article by Chai Senlin (2693 2773 2651) and Wang Ruozhong (3769 5387 1813): "Leased Management Brings Eight Major Changes to Small Enterprises in Shenyang; Shenyang Leaders Point Out the Need To Persist in Improving While Expanding Leased Management"]

[Text] Small enterprises that earn few profits or sustain losses should persist in the enterprise system reform of leased management. We discovered this at the recently ended Shenyang City Leased-Management Enterprise Forum. While markets have been slumping and enterprise management has generally not been prospering, the economic efficiency of leased-management enterprises in Shenyang has been improving steadily. A poll taken by the Shenyang Commission on Restructuring of the Economic System of 839 enterprises which have been leased for three years shows that their GVIO [gross value of industrial output] and profits have grown 112 percent and 135 percent, respectively, since they were leased.

Small enterprises in Shenyang City were the first in the PRC to make a breakthrough in the enterprise reform of leased management, and Shenyang's leased enterprises have increased from 13 in 1984 to 1,634 at present. What positive results have leased enterprises yielded? What issues are they still facing? How can they steadily improve while expanding? A poll taken by the Shenyang Commission on Restructuring of the Economic System of various types of enterprises found that leased management incorporates competition, risk, and restraining forces; harmonizes the business interests of the state, enterprises, and staff members and workers; is a key way for small enterprises to reform their management mechanism; and is an effective way for enterprises that earn few profits or sustain losses to revitalize themselves and expand. Regardless of whether management was leased by individuals, partnerships, all personnel, or enterprises, all leased management has achieved good results and generally brought about the following eight major changes:

—The number of enterprises that sustain losses has clearly decreased, and economic efficiency has generally improved. Statistics on the 1,634 leased enterprises in Shenyang, show that 321 of the 398 that sustained losses before being leased have turned their losses into profits. For instance, the Shenyang Wire Factory lost 970,000 yuan in 1987, and was flashed a

"yellow warning light" by the Bureau of Machine Building and Electronics. As its wire and cable sales were in a slump, Gu Dianyuan [6253 3013 0337], its director, guided its staff members and workers to put leasing into effect for all personnel. Everyone put up venture guarantees, a complete set of reforms went into effect within the enterprise, and a community of interests was formed. The factory earned more profits and paid more taxes in 1989 than ever before, increased its sales income for January to May 1990 by 71 percent over the same period in 1989, fulfilled its 1990 production tasks eight months ahead of time, and became one of Shenyang's 50 biggest payers of profits and taxes to the state.

—Leading economic indicators for leased enterprises have grown more than those for nonleased ones. The GVIQ and profits of the 839 enterprises that have been leased for three years have grown 112 percent and 135 percent, respectively, since they were leased, which is 78 percent higher than for nonleased enterprises. The 223 leased-management enterprises in Liaozhong County earned 74.131 million yuan in profits in 1989, which was four to 15 times more than before they were leased.

—More profits and taxes are clearly being paid to the state. Certain enterprises depended on state tax reductions and profit concessions to get by before they were leased. The 839 enterprises that have been leased for three years paid 51.895 million yuan in profits and taxes to the state in 1989, or 1.57 times more than before they were leased. The 11 leased enterprises under the No. 1 Industrial Bureau in Liaozhong County paid 15.65 million yuan in profits and taxes to the state in the five years from 1985 through 1989, for an average increase of 34 percent a year.

—Incomes of staff members and workers have clearly increased. Before being leased, certain enterprises had poor economic efficiency, and some could not even meet their payrolls. Since they were leased, their economic efficiency has improved and the incomes of their staff members and workers have increased at an average rate of 23.1 percent a year, or 2.7 percent more than for nonleased enterprises, which has guaranteed better standards of living for 190,000 staff members and workers and their 500,000 dependents and has played a key role in achieving social and public stability.

—The capacity to make up losses has been enhanced. Before leasing went into effect there was no one in certain enterprises to be held responsible for losses, which the state or collectives had to make up. Since leasing went into effect and venture guarantees (in the contract system) were introduced, most enterprise leaseholders have paid venture guarantees, which has

enhanced the capacity of enterprises to make up losses. Because of poor management, 43 leased enterprises in Shenyang were unable to fulfill their contracts, and leaseholders made up losses out of venture guarantees in 1989. Due to poor management, a wristwatch component factory in Liaozhong sustained a loss of 34,000 yuan, which leaseholders made up out of venture guarantees according to contract provisions. The Chengxin Dumpling Restaurant in Shenyang sustained a loss of 10,000 yuan, which leaseholders also made up out of venture guarantees.

—Enterprise management has clearly improved. Since the Daming Timepiece and Eyeglass Store in Shenyang put leased management into effect, Lu Naiyu [7120 0035 3768], its manager, has run it more democratically by establishing a system of job responsibility and more rational distribution of income, which has aroused the initiative of its staff members and workers. The store earned 1.08 million yuan in 1988, 1.1 million yuan in 1989, and more in the first half of 1990 than in the first half of 1989. It has been awarded the honorable titles of "giant among small enterprises" and "enlightened unit."

—The initiative of both managers and producers has been heightened. Before the Liaozhong County Printing Company was leased, there were major conflicts between its staff members and workers and its leaders, and among its staff members and workers, many of whom asked to be transferred out. Since Zhao Jiangxi [5128 3068 0823] has been leasing it, he has set out to care for, cherish, and understand people, and to establish new relations between the leaders and the led, which has eliminated the various conflicts, strengthened unity, and invigorated the enterprise.

—Enterprise stamina has been increased and most leased enterprises have undergone face-lifts. Before being leased, certain enterprises had dilapidated factory buildings, aging equipment, and no finalized products. Since they were leased, their leaseholders have invested capital in increasing their stamina. Statistics for enterprises that have been leased for more than three years show that their fixed assets have increased 65.3 percent, their production capacity has expanded, and they have test-produced a large number of new products.

All of the participants in the forum also made suggestions on ways to resolve problems of a few leaseholders, such as poor character, short-term actions, unfair distribution of income, and unwillingness to be supervised by party organs and the masses. Zhang Guoguang [1728 0948 0342], secretary of the Shenyang CPC Committee, pointed out the need to persist in leased management with boldness and assurance, promote what is beneficial and abolish what is harmful, and improve steadily while expanding.

FOREIGN TRADE, INVESTMENT

Semiannual Foreign Trade Report for Beijing

90CE0382B Beijing GUOJI SHANGBAO in Chinese
14 Jul 90 p 1

[Article by reporters Liu Lei (0491 7191) and Xu Liang (1776 0081): "Beijing Municipality Increases Exports by 20 Percent in the First Half of 1990"]

[Text] According to the Beijing Municipal Foreign Trade Work Conference which was held on 10 July, due to its efforts to strengthen enterprise management and vigorously increase enterprises' comprehensive economic returns in 1990, the foreign trade department of Beijing Municipality achieved outstanding results in the first half of 1990. From January to the end of June, the trend of foreign exports rose steadily, and all economic targets were achieved successfully. Statistics show that exports reached \$654 million, an increase of 22.6 percent over the corresponding period of 1989 and accounting for 68.4 percent of the state plan for the whole year.

Fifteen foreign trade and industrial trade companies dealing with clothes, knitwear, handicrafts, and nonferrous metals fulfilled over 50 percent of the state-assigned annual plan in five months. Electronics and silk companies fulfilled their annual export tasks in six months. Self-managed export enterprises made faster progress. In the first six months, they exported a total of \$48.46 million in goods, a 4.44-fold increase over the corresponding period of 1989, showing the advantage of large and medium-sized export enterprises in earning foreign exchange. Processing and assembly of imported materials developed rapidly. In the first half of 1990 alone, the economic and trade commission approved 123 contracts on the processing of imported materials, involving \$66.77 million, equivalent to 16-fold the amount in the corresponding period of 1989. In addition, high-tech exports and barter trade with the Soviet Union and East Europe were also very brisk. Beijing Municipality exported \$15.2 million in technology and earned \$5 million in foreign exchange. Beijing's ability to export mature industrial technology and complete sets of equipment increased markedly. At the economic trade talks held at Harbin with the Soviet Union and East European countries, the Joint Trading Group of Beijing, which was formed by 27 foreign-trade, industrial-trade companies, and large and medium-sized production enterprises, signed contracts and agreements with foreign investors worth 132.56 million Swiss francs (nearly \$100 million). This was the highest amount of transactions, the broadest range of barter trade, and the most flexible form of trade talks ever carried out since the beginning of local barter trade. This shows that barter trade has a broad range and good prospects for cooperation.

In the first half of 1990, Beijing Municipality also closed many deals. By the end of June, deals worth \$937 million were closed, an increase of 20.2 percent over the corresponding period of 1989. Exports to Hong Kong, Japan, the EEC, and the United States increased on the average

of 15.1 percent over the corresponding period of 1989. Exports to Singapore, Canada, Australia, and the Gulf oil countries increased rapidly at rates between 29 to 48 percent.

The comprehensive targets for foreign trade economic returns of Beijing Municipality were fulfilled successfully. In the first five months, 10 self-managed export enterprises, which are foreign trade and industrial trade companies responsible for fulfilling state-assigned plans, had outstanding results in reducing deficits and increasing profits. By the end of May, Beijing Municipality fulfilled 49 percent of the base foreign exchange delivery contract. Cash foreign exchange accounted for 48.6 percent of the contract base. Cereal and edible oil, five minerals, chemical industry, silk, and intermediate technology export companies fulfilled their annual foreign exchange delivery tasks.

In the first half of 1990, there was a shortage of credit funds for the procurement of goods, and the gap of funds was about 100 million yuan. To ensure proper industrial growth and fulfill their foreign export tasks, foreign trade companies tried to overcome difficulties, vigorously contacted production enterprises to work out an export-goods supply plan, and conscientiously implemented the dual-track contract plan. As a result, the total amount of goods procured reached 2.76 billion yuan, of which goods worth 1.88 billion yuan came from Beijing Municipality, an increase of 50.7 percent.

In the first half of 1990, under the situation of the continuous implementation of a tight credit policy, a funds shortage, and a certain degree of inflation at home, Beijing's foreign trade department adopted measures to strengthen enterprise management, increase economic returns, exercise macroeconomic regulation and control, and promote comprehensive planning. In addition to the timely appropriation of 40 million yuan to foreign trade companies, the municipal government vigorously raised money and bought, at a rational price and in a unified manner, about \$70 million of foreign exchange, which enterprises retained for their own use and which they urgently needed for sales, and to help foreign trade and industrial departments. In the meantime, financial, banking, commercial inspection, and customs departments also expanded the scale of credit funds and provided vigorous coordination and support in the building of tax-secured cotton warehouses.

Semiannual Trade Report for Guangdong

90CE0382A Beijing GUOJI SHANGBAO in Chinese
21 Jul 90 p 1

[Article by reporter Luo Jianlin (5012 1696 3829) from Guangzhou: "Guangdong Exports \$4.685 Billion in the First Half of 1990"]

[Text] In the first half of 1990, Guangdong's foreign exports increased steadily. The situation was better than expected. The actual volume of foreign exports for the whole province was \$4.685 billion, accounting for 74.5

percent of the province's annual plan, an increase of 43.13 percent over the corresponding period of 1989. General foreign exports accounted for \$2.96 billion, and "three forms of import-processing compensation trade" and exports of enterprises of "three capital sources" accounted for \$1.724 billion. Eighteen of the 19 special foreign trade companies under the direct control of the province fulfilled or overfulfilled their plan on schedule. They are still the mainstay of Guangdong Province's foreign exports. In the first half of 1990, the three special economic zones of Shenzhen, Zhuhai, and Shantou exported \$1.291 billion in goods, accounting for 27.56 percent of the province's total exports; Guangzhou Municipality exported \$635 million in goods, accounting for 13.55 percent of the province's total exports.

Between January and June 1990, 1,226 new direct foreign-investment agreements (not including those signed at the "1990 Zhuhai Trade Talks") were signed in Guangdong, enterprises of "three capital sources" contracted for \$1.14 billion in foreign funds, and \$490 million was actually used. A total of 2,128 contracts were signed for compensation trade and three forms of import processing; \$74.5 million in foreign funds were involved in these contracts, the amount of foreign funds actually used was \$590 million. The number of projects was slightly smaller than that of the corresponding period of 1989, but the amount of foreign funds actually used is greater. Over 2,000 foreign investors attended the "1990 Zhuhai Trade Talks." They signed 305 agreements and contracts on enterprises of "three capital sources," which involved more than \$700 million in investment. They also signed 1,010 letters of intent, involving more than \$1.2 billion. Most enterprises of "three capital sources" have foreign investment of over 70 percent and the direction of their investment is getting closer to Guangdong's structural guidelines. Because their products are exported, such enterprises can all balance their foreign exchange accounts. Most such enterprises that have begun production are profitable because Chinese partners strengthened management, both sides cooperated well with each other, and enterprises are run successfully.

According to the introduction of concerned leaders of the Guangdong Provincial Commission of Foreign Economic Relations and Trade, amid the investment fever of Taiwanese investors, Guangdong Province will continue to conscientiously implement the existing policies of the central government and it will not do anything different to compete with other provinces. Guangdong will continue to do a good job in running the experimental zone of comprehensive reforms, improve service quality, increase work efficiency, further improve investment environment, and open up in all directions. Taiwan investors have free choices of investment. Guangdong may act as a go-between to help them spread inland.

Jiangsu Improves Export Situation

90CE0382C Beijing GUOJI SHANGBAO in Chinese
19 Jul 90 p 1

[Article by reporters Zhang Jianxi (1728 1696 3556) and Gao Heyun (7559 7729 0061): "Jiangsu Exports Over \$1.4 Billion in the First Half Year—Exports Increase 21 Percent and Transactions Increase 12.9 Percent Compared With the Corresponding Period of Last Year"]

[Text] Since the beginning of 1990, the broad masses of cadres and workers of economic and trade departments in Jiangsu Province roused themselves, strived to get ahead, adopted practical measures, overcame difficulties, and made gratifying achievements in foreign trade and exports. In the first half of 1990, Jiangsu Province exported \$1.477 billion in goods, fulfilling 61.75 percent of the state-assigned plan, an increase of 21.4 percent over the corresponding period of 1989. Of 18 specialized export and import companies in the province, 16 fulfilled their export plan for the first six months ahead of schedule.

All city, county, and provincial specialized foreign export and import companies have broken down their annual plans and fighting goals, assigned them to grassroots units and functional offices, and carried out examinations and evaluations on a regular basis. Every responsible comrade of the provincial economic and trade commission is assigned to a foreign trade company at the provincial level and another one at the county level to lead different departments and offices in going down to grassroots units to carry out investigation and research and help them solve problems at work.

Textile exports have an important position in Jiangsu's exports. In 1990 Jiangsu Province formulated the method of "three links"—cotton transfer, yarn production, and export supply—and basically guaranteed the supply of raw materials for the production of textile products. Jiangsu's foreign trade departments also used various economic means to support and develop the production of export commodities. In the first half of 1990, they issued textiles development funds, industrial loans, and base foreign exchange and imported chemical fertilizer to encourage enterprises to carry out technological transformation, improve their standards, upgrade, and expand the production of marketable goods. As a result, this year's foreign trade procurement showed a considerable increase over last year's. By the end of June, foreign trade procurement increased 22.2 percent as compared to the corresponding period of 1989.

Jiangsu Province considered closing export deals and raising the contract fulfillment rate as the focus of this year's export work. While working hard on closing ordinary, mail and telephone, and face-to-face deals, they did a good job in promoting sales overseas.

Jiangsu Province held trade fairs in Kuwait, the United Arab Emirates, and Japan. In May, Jiangsu Province organized in a unified manner 11 sales promotion groups

which gathered in New York in the United States to carry out trade activities and achieved good results. In the first half of 1990, the number of export deals closed in Jiangsu also increased 12.9 percent as compared to that in the corresponding period of 1989. In order to raise the rate of fulfillment of export contracts, Jiangsu's foreign trade companies all paid attention to this matter.

Currently, the contract fulfillment rate of most specialized foreign trade companies is over 70 percent. The contract fulfillment rate of three companies—the provincial machinery, handicraft, and pharmaceutical companies—is over 90 percent.

Jiangsu paid great attention to the quality of products in the exports of 1990.

Ninety-seven percent of all export commodities passed quality examinations, thus protecting Jiangsu's reputation abroad.

Contract Signed for First Stage of Shanghai Sewer Project

OW1808213590 Beijing XINHUA in English
1407 GMT 18 Aug 90

[Text] Shanghai, August 18 (XINHUA)—A contract was signed here today for the construction of a water-pumping station, a key component of the first-stage of the Shanghai sewer project.

The bid to build the 16.98-million-U.S.-dollar project was won by Sulser Brothers Ltd. of Britain, Asea Brown Boveri Ltd. of the Federal Republic of Germany, the Shanghai Machinery Import and Export Company and the Shanghai Machinery Engineering Company.

Construction will begin in the second half of the year and plans call for completion by 1992.

The first stage of the Shanghai sewer project, designed to treat the seriously polluted Suzhou River which flows through the city proper, will require a total investment of 1.6 billion yuan, including 145 million U.S. dollars in World Bank loans.

Fujian To Use More Foreign Funds To Upgrade Old Enterprises

OW2708172390 Beijing XINHUA in English
1452 GMT 27 Aug 90

[Text] Fuzhou, August 27 (XINHUA)—Fujian Province in east China plans to use 700 million U.S. dollars of overseas capital to technically upgrade its old enterprises during the Eighth Five-Year Plan (1991-1995).

The province has 13,355 industrial enterprises above the township level.

Technical upgrading in recent years has helped some of the province's existing enterprises raise their technical levels and improve management with good results.

According to local officials, technical upgrading efforts will be concentrated on the chemical industry over the next five years.

ECONOMIC ZONES

Taiwanese Industrial Area To Be Set Up in Caohejing

90CE0408C Shanghai JIEFANG RIBAO in Chinese
22 Jul 90 p 1

[Article by correspondent Jiang Xinhe (5592 1800 0735): "First Hand-in-Hand Cooperation Between Industrialists From Both Sides of the Strait—Taiwanese Industrial City To Be Set Up at Caohejing"]

[Text] Through the first hand-in-hand cooperation between industrialists from both sides of the strait, the first three-dimensional, modern, and fully opened-up Taiwanese industrial city on the mainland will be set up at the new technological development zone of Caohejing in Shanghai Municipality. The ceremony of signing the agreement for the establishment of the Caohejing Taiwanese industrial city took place yesterday afternoon at the Huating Guesthouse.

K.C. Lai [Lai Jinxiang 6351 6930 4382], assistant manager of the Hong Kong Comalong Trading Company, Ltd., and Wu Zhizhong [6762 1807 1813], deputy director of the East China Construction Design Institute, signed the agreements for the overall design of the base and for the contractual undertaking of management responsibilities. The signing took place at the Industrial Building of the Taiwanese industrial city.

On 28 March of this year, the Hong Kong Comalong Company signed an agreement with the Shanghai Municipal Land Bureau to obtain use rights, against remuneration, for the first piece of this city's land in the Caohejing development zone. The Comalong Company intends to build on this piece of land of somewhat over 40,000 square meters a modern Taiwan industrial city. They will invest a total of \$80,000. This industrial city will consist of eight houses of eight rooms each of a standard design for business buildings, and one 32-story building, 135 meters high, to serve as an office building, comprising offices, living quarters, and exhibition facilities. The entire industrial city will be able to accommodate the factories of 64 firms manufacturing for export, whose annual foreign exchange earnings are hoped to reach \$200 million.

Construction of the Taiwanese industrial city will be contracted out according to three design tenders, namely a design tender for industrial buildings, a design tender for all common installation at the industrial city and contract tenders for all managerial lines, and a design tender for service buildings. As selected by the Comalong Company, the East China Construction Design Institute has obtained together contracting rights from the industrial building and common installations tenders. As to

the other item, the contract from the design tender for service buildings, signing will be announced in the near future. The novelty of outer constructions, its imposing shape, and its structural plan and design embodies the combined wisdom of top-ranking architects on both sides of the Taiwan Strait and is the first instance of high-level hand-in-hand cooperation between engineers from both sides of the Taiwan Strait.

We are informed that construction on the industrial buildings will start on New Year's Day of next year. The first stage of the project, two industrial buildings, is to be completed 1 July 1992 and will provide factory space for 16 manufacturing enterprises. The latter stage of the project is to be completed in 1995. The industrial buildings will be ready to start sales operations in October of this year. The service buildings will be constructed simultaneously.

Leading cadres of Shanghai's municipal administration attended yesterday's contract signing ceremony.

Agricultural Bank Sets Up Branch in Shanghai's Pudong Area

*OW2508073490 Beijing XINHUA in English
0649 GMT 25 Aug 90*

[Text] Shanghai, August 25 (XINHUA)—The Agricultural Bank of China on Friday opened the first Chinese-funded bank branch in Shanghai's Pudong area.

In its first day of operation, the branch provided loans of 73 million yuan (15.5 million U.S. dollars) and 11 million U.S. dollars to four Sino-foreign joint ventures and state-run firms in the zone.

Branch Manager Zhu Heng said his bank will concentrate on loans for export-oriented enterprises, particularly foreign-funded enterprises, hi-tech industrial enterprises, enterprises engaged in real estate development, and those engaged in export-oriented agriculture in Pudong.

Zhu said the branch will provide loans of 2.5 billion yuan (520 million U.S. dollars) and 200 million U.S. dollars for the development of Pudong over the next five years.

The branch has 78 offices in the Pudong area with a total staff of 1,300.

Other Chinese banks, including the People's Construction Bank of China, the Industrial and Commercial Bank of China, and the Bank of China, also have plans to set up branches in the area.

Shanghai Reports Minhang Economic Development Zone Success

*OW1708181390 Beijing XINHUA in English
1422 GMT 17 Aug 90*

[Text] Shanghai, August 17 (XINHUA)—After five years of development, Minhang Economic Development Zone in Shanghai has become a success.

Foreign investment in the zone has increased nearly 100 percent each year since it was set up in 1986. In 1989, the industrial output value of its foreign-funded enterprises totaled 6.8 million yuan (about 1.36 million), 3.34 times more than in 1988.

Quick results have been achieved. More than a third of the zone's 44 foreign-funded enterprises began to export in their first year of operation.

Local officials attribute the success to sound capital construction and management.

Minhang, covering an area of 1.13 sq km, was started in 1986. In the past five years, the zone has invested 100 million yuan in infrastructure, including villa-style buildings for foreign investors and service facilities.

Twenty agencies, including a tax office, a customs office, four banks and an insurance company, serve foreign investors in the zone.

All necessary procedures for foreign-funded enterprises to export products can be completed in half a day.

Since 1986, a road network has been built and the Minhang-Shanghai Expressway joins the development zone and the city proper.

The zone is 47 km from an 10,000 ton-class international container berth in Shanghai, 15 km from the nearest container berth, and 27 km from Hongqiao International Airport.

Though state-owned enterprises outside the zone and in most parts of Shanghai are often affected by electric power shortages, foreign-funded enterprises in the zone do not have to worry. The zone has its own newly built power station with seven times the capacity currently needed.

Two thousand program-controlled telephones link the zone and about 100 major cities around the world.

Land Transfer Agreement Signed in Zhejiang's Ningbo

*OW2708170490 Beijing XINHUA in English
1439 GMT 27 Aug 90*

[Text] Ningbo, August 27 (XINHUA)—An agreement on the transfer of land-use rights for the largest piece of state-owned land in Ningbo was signed here August 24.

Land-use rights for the 53,477 sq.m plot have been transferred for 70 years.

Under the agreement, signed by the Ningbo Land Development Company, Ltd., a joint venture of the Hong Kong-based Henderson Land Development Company, Ltd., the Ningbo branch of the China State Housing and Real Estate Development Corporation, and the Ningbo municipal land administration, two villas and a garden village with a combined housing space of 43,000 sq.m. will be built on the land.

Projects listed for this year will cost an estimated 40 million yuan. The whole project is to be completed in 1991.

AGRICULTURE

Grain Coupons Becoming Second 'Currency'

90CE0379B Beijing JINRONG SHIBAO in Chinese
11 Jul 90 p 3

[Article in "Observations and Thoughts" column by Wei Xiaoming (5898 0879 2494): "Grain Coupons Are Fast Becoming a Second 'Currency'"]

[Text] As the urban population's standard of living rises, the mix of foods and beverages people consume is changing. The grain rations based on 1950's and 1960's standards have produced leftovers everywhere. A large number of grain coupons are being held by people, unused. The old grain supply standards are no longer valid under today's conditions. Comprehensive reform measures are urgently needed.

In China, a densely populated country with limited per capita arable land and barely self-sufficient in grain, rationing grain to the urban population is a necessary national policy. But today adjustments must be made to the original grain ration policy to prevent the ration coupons from being turned into a second "currency."

Trading industrial and everyday light industrial goods and agricultural and sideline products illegally for grain coupons and using the coupons to buy grains that are under state plan and reselling them at negotiated price for profit is an abnormal economic phenomenon that has cropped up in recent years. The motive behind these transactions is that people can avoid paying commodity production and operation taxes and pocket huge sums of state grain subsidy at the same time, making a huge profit at both ends illegally. This has become a hot point in the current illegal exchange of grain coupons. Today, an alarming number of people are engaging in this kind of business in the streets of the cities and towns nationwide and among the troops and in the military bases. Statistics furnished by a relevant department in Nanjing show that in Nanjing City alone, nearly 150,000 kilos' worth of grain coupons are bought and sold with agricultural and sideline products a day and another 75,000 kilo's worth are being exchanged for industrial goods. At this rate, 37,500 yuan worth of government subsidies have found their way into the hands of crooked businessmen each day. If all the leftover grain coupons in the city are traded in by the residents, we can imagine the serious financial loss the state will incur. Nationwide, the phenomenon of illegal trading of grain coupons must be even more alarming and the amount of money involved must be substantial.

Many factors help turn the grain coupons into a second "currency" which is widely circulated among the people. These factors can be summed up as follows:

One, considering the intrinsic factors which help turn the grain coupon into a "currency," grain coupons came about because the state is unable to increase the grain supply fast enough to keep up with the increase in demand and therefore must rely on its authority to issue a kind of compulsory purchase coupon. These coupons are divided into national and local categories. They are universal and transferrable and can be used repeatedly, and they have use value. Under the dual-track grain procurement and selling price system, the relationship between price and value is distorted, which provides a yardstick for measuring the true value and assessing the price of the grain coupons. A specific number of coupons left in the hands of the residents made it possible to make a profit through reselling and repurchasing as well as in-kind exchange. This creates a market with a supply of grain coupons.

Two, looking at the catering and service trades nationwide, except for some state-run enterprise units which still enforce the state's system of not cashing in grain coupons, go by the rules of refusing to do business without grain coupons, and asking for designated coupons to purchase processed grain products, all collectively or individually owned restaurants and cafeterias will accept RMB in lieu of coupons based on open market negotiated price, namely, market price coupons. Meanwhile, the people have tacitly accepted the practice.

The market price of grain is what directly affects the face value of the grain coupons. Grain coupons are generally accepted by the public to be a valuable security that can be saved, circulated, or exchanged. Whether we want to admit it or not, the face value of these coupons is spontaneously regulated by the law of value.

Three, in recent years, the national economy has seen rapid growth. Industries, the construction business, and individual businesses have undergone rapid development. Many peasants have flocked to the cities, offering their physical labor as well as agricultural and sideline products. They generally make a good living, but because of their household registration problem, their only source of grain ration is the negotiated-price grain. The disparity in grain prices creates among them a demand for grain coupons and, thus, forms the market with a demand for grain coupons.

Four, since the rapid development of township enterprises, everyday industrial products have been making up an increasingly larger share of social commodities. In the absence of a complete set of tax and price management rules and regulations, enterprises must produce and sell their own goods, and because they want to survive and grow, they cannot just depend on their share of the retained profit generated by product sales to stimulate sales, and consequently they flood the civilian sales channels with goods. In addition, affected by the tax burden, etc., their prices are far below what the state-run commercial departments are charging. As a result, exchanging goods for grain coupons becomes an

even more acceptable transaction for most people, and illegal exchange of grain coupons in every form is rampant.

In short, leftover grain coupons will continue to accumulate in the hands of the citizens, and grain subsidy will continue to increase year after year. Trading everyday industrial goods, agricultural and sideline products, and cash for grain coupons and exchanging them for grains that are under state plans can yield much profit. This will sustain the illegal activities. The situation will only get worse. These activities must be stopped now.

Excessive Stockpiles of Fertilizers Reported

*HK2908064590 Beijing RENMIN RIBAO in Chinese
24 Aug 90 p 2*

[Report by Fan Yong (2868 0516) and Xie Qing (6200 7230): "China-Made Fertilizer Unsalable"]

[Text] Since the beginning of this year, there have been excessive stockpiles of China-made fertilizers. In late June, the carbon, ammonium, and phosphate fertilizers piled up in the chemical fertilizer enterprises across the country increased by 61 percent over the beginning of the year, and 3.7 fold over the same period of last year, and the commercial inventory of fertilizers nationwide was also in great excess of a rational amount. The situation has seriously threatened the future of the chemical fertilizer enterprises. A large number of small chemical fertilizer enterprises have been forced to suspend or reduce their production and the relevant production capability dropped by a big margin. The responsible cadre of the Chemical Industry Ministry said the causes of the excessive stockpiles are as follows:—Peasants applied less fertilizer. In some areas, the inventory of grain mounted, grain prices dropped, and the rate of return on applied fertilizer was low with the result that higher output was not accompanied by a higher income, affecting the peasants' enthusiasm for applying fertilizer.—The fertilizers imported were more than planned. Too many channels and ineffective control caused imported fertilizers to far exceed the quota set by the state, seriously affecting the domestic market for chemical fertilizers.—The policy which put chemical fertilizer under exclusive state control lacked supportive measures. The department responsible for agricultural funds failed to purchase in time the fertilizers produced by chemical fertilizer enterprises for lack of funds, so it was unable to play the role of a "reservoir."

The cadre continued: To prevent China's chemical fertilizer industry from suffering serious setbacks and to guarantee agricultural production and development, it is necessary to take immediate measures to solve the problem.

First, we should offer commercial loans with interest [tie xi dai kuan 6317 1873 6313 2949] to purchase chemical fertilizers kept in stock to preserve the related productive force; second, we should strictly carry out the state policy on importing chemical fertilizers, readjust the variety of

the fertilizers imported, and limit the amount. We suggest that the government include the import of fertilizers in the state plan and make it a rule that no import of chemical fertilizers is allowed without an import license. Third, it is necessary to improve the policy of linking the sale of grain under contract to the supply of chemical fertilizers, and change the conception that the fertilizer supplied in connection with such purchases must be high-concentration fertilizers. We should encourage the practice of substituting low-concentration fertilizers for high-concentration fertilizers or supplementing the latter with the former.

Hog Cholera Vaccine Developed

*90CE0413A Lanzhou ZHONGGUO SHOUYI KEJI
in Chinese No 5, 20 May 90 pp 3-6*

[Article by Xu Heyou (1776 0735 0645), Tu Shuhua (8094 6615 5478), Wu Lihua (1566 7787 5478), Xiao Tongying (5135 6639 5391), Jiang Maohua (5592 5399 5478), and Zhang Shimin (1728 0013 3046), Jintang County Veterinary Medicine Diagnostic Laboratory, Sichuan Province; and Huang Renfeng (7806 0086 7685), Qi Chun (2058 3196), Li Danming (2621 0030 2494), and Zhang Hongjun (1728 7703 6874), Veterinary Medicine Diagnostic Laboratory, Sichuan Provincial Veterinary Medicine Epidemic Prevention and Quarantine Main Station]

[Abstract] More than two years of work devoted to finding new heterogenous cells for the production of hog cholera vaccine opening the way to improved commercial production of the vaccine was successful in early April 1983. Although much further work in revalidating and refining techniques lay ahead, preliminary results showed calf kidney cells to be a fine medium for the culturing of hog cholera virus of rabbit origin. This medium was no less effective than homologous cells for the breeding of virus, release, consistency of toxic values, and output of toxin, and the vaccines produced were safe, effective, and in larger amounts than the vaccine produced from culturing in hog kidney cells. Since the initial laboratory success, full research has been done on techniques for commercial production of the vaccine.

Article concisely summarizes the materials and methodology used in obtaining, preparing, and culturing the tissue medium, and discusses results obtained including general morphological examination of first generation culture cells, survival conditions for in vitro cell culturing, and biological traits of calf kidney cell cultures, including the aging and death of cells, cell regeneration and aging, and premature deterioration and rescue of cells.

The article also provides several tips on practices to be adopted and avoided in the culturing of the cells.

Anhui Aquatic Products Output

40060060C Hefei ANHUI RIBAO in Chinese
13 Aug 90 p 2

[Summary] In the first half of 1990, gross output of aquatic products in Anhui Province totaled 140,700 tons, a 3.3 percent increase over the same period in 1989. The fish and shrimp breeding area was 5,550,000 mu.

Fujian Hog, Poultry Output Increases

40060060B Beijing JINGJI RIBAO in Chinese
21 Aug 90 p 2

[Summary] At the end of June, the number of hogs in stock in Fujian Province totaled 8,710,000 and poultry in stock totaled 59,830,000, increases of 4.1 percent and 8.2 percent respectively over the same period in 1989.

Henan Tobacco Area

40060060A Beijing JINGJI RIBAO in Chinese
18 Aug 90 p 2

[Summary] The tobacco area in Henan Province this year is 3,020,000 mu.

Jiangsu Sets Record in Stock of Grain

OW0109183890 Beijing XINHUA in English
1435 GMT 1 Sep 90

[Text] Nanjing, September 1 (XINHUA)—Jiangsu set a new record in its stock of grain after the summer harvest this year, according to the provincial food bureau.

Zhou Chunhai, deputy director of the provincial food bureau, said that the stock of grain has surpassed 10 billion kilograms, 2.7 billion kilograms more than the previous record.

Jiangsu Province in east China is a major grain producer in the country. Due to a standstill of grain production and excessive consumption, the province had to consume its grain reserve in the past few years.

As China stressed grain production and rectified economic order in late 1988, Jiangsu's grain output increased by 1.5 billion kilograms and 1.1 billion kilograms last autumn and this summer respectively, while its supply of grain for temporary construction workers and for the production of beer and spirits has been reduced by 500 million kilograms.

Jiangsu Aquatic Output

40060060E Nanjing XINHUA RIBAO in Chinese
5 Aug 90 p 1

[Summary] From January to June, gross output of aquatic products in Jiangsu Province was 413,600 tons, an increase of 301,000 tons over the same period in 1989. The sea catch was 132,000 tons, a four percent increase. However, income of the sea fishery industry

declined because production costs increased and fish prices dropped. Output of freshwater aquatics was 216,500 tons, a 10.5 percent increase. Output increased because the breeding area was expanded and the per unit area yield was raised. At the end of June, the freshwater breeding area was 5,708,900 mu.

Jiangsu Grain Storage

40060060D Nanjing XINHUA RIBAO in Chinese
11 Aug 90 p 1

[Summary] As of 5 August, Jiangsu Province had put 3.107 billion kilograms of grain in storage, an increase of 1.202 billion kilograms over the same period in 1989. The actual price paid by grain departments for negotiated wheat purchases was about 0.10 yuan higher per kilogram than the market price. Due to the higher quality of wheat in areas south of the Huai He, procurement units paid about one yuan per 50 kilograms.

Jiangxi's Commercial Hog Bases Thrive

90CE0379A Nanchang JIANGXI RIBAO in Chinese
4 Jul 90 p 1

[Article by Xu Tao (1776 3447) and reporter Hu Jie (7579 2638): "Jiangxi's Commercial Hog Bases Take On the Key Role; 23 Base Counties Raise 11.277 Million Head of Hogs, Accounting for 41.1 Percent of the Province's Total Hog Production"]

[Text] This reporter has just learned that Jiangxi Province had produced 12.371 million head of hogs for slaughter in 1989. This proved to be another gratifying step forward since the province's hog production surpassed the 10 million-head mark in 1987 to join the ranks of the nation's major hog-producing provinces. Jiangxi owes its success to its effort to build commercial hog bases in recent years.

Since the provincial government's decision to "focus on the construction of hog bases," Jiangxi Province has gathered 9.40 million yuan since 1985 to build commercial hog bases in 23 counties, including Shangguo, Dongxiang, and Nankang. While focusing on the four main systems, namely breeding improved varieties, preventing epidemics and diseases, setting up small feed-processing plants, and improving circulation, the province also promoted practical techniques, provided comprehensive services, and, especially under the guiding ideology of "increasing channels, reducing links, and decontrolling management," formulated the principle of "letting sales determine production and enlivening the circulation sector" to help the bases develop steadily. Within five short years, most of the base counties have begun to show result; some have entered the period of maximum efficiency. Last year, the 23 base counties raised 11.277 million hogs, accounting for 41.4 percent of the nation's capacity and raising 59.54 percent more hogs than in 1984, before the bases were built. They sent 5.571 million head to the slaughterhouse, accounting for 45 percent of the total number of hogs

slaughtered in the province last year and surpassing the 1984 rate by 90.9 percent. Of all the porkers slaughtered province-wide, 7.20 million head were fine-quality commercial hogs that yielded more than 48 percent lean meat, and 4.50 million of them were from these bases. The bases also shipped 2 million head of hogs to Hong Kong and Macao and markets outside of the province.

Currently, the province has 22 county-level central sperm banks and 270 village (township) sperm supply points. In 1989, 243,000 head of sows were bred by artificial insemination. There are more than 800 feed processing points. Disease-prevention inoculation is maintained at above 95 percent year-round. The infrastructure around 14 fine-breed hog farms and 23 breed preservation zones has been further augmented and improved. Instead of dealing solely with disease prevention and cure, the primary level livestock veterinarian stations are also turning to feed processing and artificial insemination. Systems involving the breeding of improved hog varieties, feed processing, livestock science and technology, epidemic prevention, and disease inspection are slowly being perfected.

To further strengthen Jiangxi's commercial hog bases by way of intensive expanded reproduction, besides adding new commercial hog-rearing base counties, relevant provincial departments have suggested standardizing the facilities in the existing bases and listing 40 counties (cities, districts), including Shangguo, Dongxiang, and 20 other commerical hog-rearing base counties, as experimental zones in the spark plan to promote hog-rearing technologies, and within the three years of 1990-1992 we hope to improve the breed of sows, produce boars with lean meat, crossbreed one (or two) generations of porkers, and breed more hogs by artificial insemination.

Shanxi Farmer Income

40060061A Taiyuan SHANXI NONGMIN in Chinese
2 Aug 90 p 1

[Text] According to a survey of 2,100 rural households in 35 counties, in the first half of 1990, per capita cash income of farmers in Shanxi Province was 257.65 yuan, an increase of 37.72 yuan, or 17.2 percent over the same period in 1989. Per capita expenses for production were 36.4 yuan, an increase of 8.40 yuan; and living costs were 187.30 yuan, an increase of 31 yuan.

Role of Small Cities, Towns in Modernization

90CM0344A Beijing ZHONGGUO SHEHUI KEXUE [CHINESE SOCIAL SCIENCES] in Chinese No 4, 10 Jul 90 pp 131-146

[Article by Ma Rong (7456 2051), Deputy Director and Lecturer, Sociology Research Institute, Beijing University: "Development of Small Cities and Towns, and China's Modernization"]

[Text] This article surveys the course of development of China's small cities and towns during the past 40 years, and discusses changes in their inherent structure and function from the community study angle. It emphasizes that country fair trade and township and town enterprises have been the two main pillars for the development of small cities and towns in recent years. The article narrates the several main ways in which the rural work force moves toward cities and towns, the effect of policy factors on the development of the country's small cities and towns, and the significance and status of small cities and towns in China's urbanization and industrialization.

As the largest developing nation in the world, along what road to industrialization will China advance? What form will China's urbanization take? In the process of China's industrialization and urbanization, what role have small cities and towns played, and what role will they play in the future? These are all issues about which modern Chinese researchers are extremely concerned. This article discusses mostly the development of Chinese small cities and towns during the past several years. It relates changes in the economic structure and the community functioning of small cities in towns to discussion of the significance of the development of small cities and towns for China's urbanization and industrialization.

I. Definition of Small Cities and Towns

In government statistics, a "town" is a first-order administrative entity between a "city" and a "village" in the administrative zoning system. Towns that are formally termed "organic towns" [jianzhi zhen 1696 0455 6966] belong administratively to a city or a county, and are on a level equal to a township.

Regarding the conditions that must be present for an inhabited area to request town status, the government made three specific rulings in 1955, 1963, and 1984. According to the 1955 ruling, to become a town, it must meet one of the following criteria: 1) be the seat of the county government; 2) have more than 2,000 permanent residents (meaning the household registration location), more than 50 percent of whom are a nonagricultural population; or 3) have between 1,000 and 2,000 permanent residents, more than 75 percent of whom are a nonagricultural population. In addition, when the permanent resident population is more than 20,000, the place is a "city."

The criteria in the December 1963 ruling were as follows: 1) More than 3,000 permanent residents, more than 70 percent of whom are a nonagricultural population; 2) between 2,500 and 3,000 permanent residents, more than 85 percent of whom are a nonagricultural population. Places meeting either of these criteria could be a town. Inhabited sites having more than 100,000 people could become a city. Places that once were towns or cities, but whose population no longer meets the above criteria are to have their former town or city status revoked.

In 1984, criteria for becoming a town changed once again: 1) the site of the county government; 2) the site of a township government with a nonagricultural population of more than 2,000; 3) a relaxation of standards for industrial, mining, and tourist areas, and for border ports of entry. In addition, criteria for becoming a town were to be more liberal for minority nationality areas than for Han nationality areas. According to new regulations issued in April 1986, a town having a nonagricultural population of more than 60,000 and a gross national product of more than 200 million yuan could become a city.¹

It is noteworthy that the agricultural population in the organic towns of the 1963 regulation was not included as "town population," and that the agricultural population in town areas in the 1982 regulation was included as "town population"; but, after 1984, quite a few areas instituted the "town-controlled village" system whereby the area under town jurisdiction was enlarged, or the population of villages under town jurisdiction was included in "town population" following a change from township to town status. Thus, when using "town population" figures for different periods, attention must be given to their different connotations.² For example, between 1982 and 1984, the country's town population increased by 72.16 million, including an approximately 91-percent increase in the population of newly established towns. In existing towns, 76 percent of the increase was attributable to people moving in and to changes in the size of town jurisdictions.³ For both new and established towns alike, changes in jurisdictional area, that is, changes in statistical specifications, and changes in criteria for becoming a town are the main reasons for the rapid increase in "town population" in government statistics.

As communities in which people live and conduct activities, small cities and towns hold special significance in sociological research. Professor Fei Xiaotong [6316 1321 6639] defined small cities and towns as follows: Small cities and towns are social entities at a higher level than rural communities. These societies are communities in which most of the working population does not engage in agricultural production. In regional, population, economic, and environmental terms, they differ from rural villages, and they also maintain indispensable links to the surrounding rural villages.⁴

First of all, "towns" in the terms discussed here are residential areas (or town areas) that have dense populations, in which houses are close together, and that have public facilities such as streets, water and electricity, and transportation. Not included are other inhabited areas and populations that are administratively under town government jurisdiction. Naturally, frequently the residents of some town areas are peasants who farm land outside the town area, but they are only a small portion of the permanent residents of town areas.⁵

Second, This discussion compares small cities and towns with rural villages in four regards, as follows: 1) region (the amount of land used as the residents' gathering site); 2) population (population size and density, level of education, and occupational structure); 3) economy (industrial structure, level of productivity, means of production and product markets, enterprises' economic returns, residents' income and consumption level); and 4) environment (quantity, quality, and layout of streets and structures, water and sewage system, electric power and fuel supply, and educational and health facilities). Small cities and towns differ from rural villages, and they also differ from cities in these regards. They are between the two. They are bonds and bridges that link the two.

China's cities and towns may be further divided into three categories in terms of the nature of their community makeup, as follows: County seat towns (the location of county governments), other organic towns, and township towns [xiangzhen] (where township government is located). However, in current government statistics, no distinction is made between county seat towns and other organic towns. In terms of the study of the community, however, there is a very great difference between county seat towns and other organic towns. In terms of region, population, economy, and environment, as well as in terms of the administrative system, county seat towns are a county's center, and a county usually also has five or six, or even more than 10 organic towns. County seat towns are communities at a level above other organic towns. For example, Wudan is the county seat town for Ongniud Banner in Inner Mongolia, with an area of 8 square kilometers. It has seven street residents committees and more than 20,000 permanent residents, three hospitals, four middle schools, three primary schools, and more than 60 banner-owned and town-owned enterprises. It has cinemas, theaters, and a long-distance bus station. It is just like a small city, with all major components, but the scale and facilities in organic towns that are not county seat towns are ordinarily a far cry from this.

Current government statistics on cities and towns do not include small towns, yet township towns are very important in the study of the development of small cities and town in China. Today, both the size of the population and the extent of economic development of township

towns is greater than that of certain organic towns. For example, in 1982, there were 119 organic towns in the country, 45 percent of all organic towns, with a population of less than 3,000.⁶ During the same period, township towns in Jiangsu Province had an average population of 5,000. Although organic towns are somewhat larger in area than township towns, both have a basic-level government, one or two middle schools and primary schools, and one hospital, cinema, savings institution, post office, grain station, and supply and marketing store. In terms of community structure and function, there is no qualitative difference between them.⁷ Township towns differ markedly from other villages (such as being the location of township committees, that is, the former production brigades). The latter usually have only a single primary school and one supply and marketing cooperative. Their character is distinct from that of villages. Therefore, although township towns are carried as villages in government statistics, in doing research, it appears they should be put into the "small city and town" category.

In terms of production activity, lifestyle, and certain habits and customs, city and town residents differ from peasants. When studying the development of small cities and towns, sociologists must refer to government statistics on city and countryside population, but they pay even more attention to the number of people who have changed from "country people" to "town people" and "city people." From the sociological research angle, small cities and towns should include township towns, and county seat towns should be differentiated from other organic towns.

When studying China's urbanization, two points of methodology merit attention. The first is to look at cities, towns, and townships and villages as a total dynamic system in the historical process of China's socioeconomic development in order to understand the major trends of historical development. The second is to strive to find their true significance in the development of society apart from various definitions and statistics, noting that beyond numbers there are living things that can explain the character of social development.

II. Forty Years of Development of China's Small Cities and Towns Looked at in Terms of Statistics

In the 40 years since founding of the People's Republic, China's small cities and towns have gone through a process from flourishing growth (albeit under the old level of productivity and the commodity flow system) to atrophy, to more flourishing growth. Table 1 shows statistics for county seat towns, organic towns, and township towns from the period immediately following the founding of the People's Republic to recent years.

Table 1. Numbers of County Seat Towns, Organic Towns, and Township Towns and Their Population

Year	Number of Organic Towns					Including: Number of County Seat Towns	Organic Town Population (10,000's)				Nonagricultural Popu- lation (10,000's)			Number of Township Towns	
	1	2	4	5	6		1	2	3	5	1	2	3	5	6
Data Source ²	1	2	4	5	6	6	1	2	3	5	1	2	3	5	6
1953		5,402				2,139	3,372								284,626
1954						2,023	2,481		3,485						
1955							2,401		3,477						
1956							2,842		3,372						
1957						2,046	3,047		3,717						
1958							3,363		3,892						
1959							4,446		4,453						
1960								4,577							
1961	4,429						4,408	4,506		3,517		3,599			
1962	4,219						3,964	4,056		3,210		3,284			
1963	4,032	4,429					4,025	4,114		3,326		3,400			
1964	2,877						3,633	3,633		3,633		2,941		2,941	
1965	2,902	2,902				2,147	3,793	3,793		3,083		3,083			
1966							3,919	4,019		3,137		3,137			
1967							4,004			3,388		3,388			
1968							4,251			3,258		3,258			
1969							4,587			3,343		3,343			
1970							4,576			3,412		3,412			
1971							4,664	5,114	4,446		3,364	4,021	3,378		
1972		3,663				2,130	4,571	5,021	4,564		3,539	4,082	3,534		
1973							4,736	5,186	4,730		3,662	4,224	3,659		
1974							4,820	5,270	4,820		3,710	4,145	3,710		
1975						2,128	4,925	5,375	4,951		3,769	4,053	3,757		
1976							5,040	5,490	5,040		3,836	4,121	3,836		
1977							5,154	5,604	5,153		3,890	4,221	3,901		
1978	2,850					2,138	5,316	5,876	5,316		4,039	4,570	4,039		
1979		2,851	2,361	2,361		2,137	5,555	6,005	5,556		4,275	4,313	4,275		53,229
1980	2,874	2,874	2,874			2,137	5,693	6,142	5,693		4,415	4,611	4,415		54,183
1981	2,845		2,678	2,678		2,136	5,839	6,289	5,840		4,492	4,309	4,492		54,368
1982	2,819	2,664				2,133	6,214	6,638	6,216	6,638	4,579	4,226	4,579		53,648
1983	2,781	2,786		2,968	2,968	2,080	6,231	6,637	6,228	6,655	4,483		4,483		71,782
1984	6,211	6,708	6,211	7,186	2,069	13,447	13,447	13,447	13,861	5,228		5,228		85,353	
1985		7,956	7,511	7,956	9,140	2,046	17,541	16,633	16,633	17,507			5,721	83,182	82,450
1986				9,755		2,017				20,693				61,766	
1987				10,280	11,103	1,986				24,251				58,016	58,739
1988				10,609	11,481	1,936							45,399	45,195	

Notes: 1. The number of township towns is the number of communes or township towns built.

2. Source of Data: 1) Population Research Center, Chinese Academy of Social Sciences: *Chinese Population Yearbook* (1985). Chinese Social Sciences Press, 1986, p. 845. 2) Luo Maochu: *Review and Evaluation of China's Small City and Town Development Policy*, Tianjin International Conference on Population Urbanization treatise, 1987, p. 4. 3) State Statistical Bureau: *People's Republic of China Population Statistics Data Collection* (1949-1985). Statistics Press, 1987, p. 164. 4) Zheng Zonghan [6774 1350 1383]: "Present Status of China's Township Towns and Remedies Therefor," *Township Town Economic Research*, 1985, Issue 2. 5) State Statistical Bureau: *Chinese Statistical Yearbook*, 1987, p. 28; 1988, p. 23. 6) Ministry of Civil Affairs Statistical Date, mostly taken from annual administrative zone handbooks.

natural increase. The effect of zoning changes and population movement was limited.

By 1988, the number of organic towns increased more than twofold over 1983, and total population also doubled; however, the nonagricultural population increased only approximately 14 percent. Clearly, the tremendous increase in the number of organic towns and their population during 1984 was attributable primarily to the elevation of a large number of townships to town status, plus the inclusion of the peasant population in rural villages under town jurisdiction as "town population."

During 1983 and 1984, China's rural commune system changed to a township system. In 1981, there were 54,368 communes in the country; in 1983 there were 36,268 communes and 35,514 townships; and in 1984, there were 85,290 townships, 63 communes not yet having been converted to township status. In the process of changing from communes to townships, a single commune became virtually two townships. The number of township towns increased tremendously, and some township towns became organic towns.

The 1984 readjustment of criteria for becoming a town marked the second turning point in the development of the country's small cities and towns. After 1984, the number of the country's organic towns increased tremendously, exceeding 10,000 by 1987. It is noteworthy that the number of township towns declined markedly during 1986 and 1987. This change possibly resulted from zoning readjustments, that is, because of an expansion of the size of townships that merged some existing townships into nearby townships or towns and thereby causing the number of townships to approximate the number of former communes. The effect of these changes in zoning on society and the economic activity of the country's grassroots communities very much merits study.

It should be explained that there are many things in the social development of China's cities and countryside that this table cannot express. An example is that the increase in population to a certain extent may lead to qualitative changes in community makeup and the level of productivity, and to the social makeup of two cities with the same size population (or of two towns in different places in the same years, or having a different size population in the 1950's, and the 1980's) may be qualitatively different.

III. China's Small Cities and Towns Looked at From the Angle of Community Development

A true understanding of what changes have taken place in the country's small cities and towns during the past 40 years requires analysis of the changes in structure and performance of small cities and towns as a form of community between cities and rural villages. In order to do this, we have divided China's city and countryside community development process into three stages. The first stage was from ancient times to the founding of New China. During that period, China's city and countryside

community mostly expressed the basic features of the relationship between cities and the countryside in feudal society. The second stage was from 1949 to 1979 in which cooperativization, people's communization, and the socialist transformation of capitalist industry and commerce were the main features. The third stage was from 1979 until the present time, during which new features in the relationship between cities and the countryside occurred with the promotion of the contract responsibility system, and new policies allowing the coexistence of different forms of ownership.

In 400 BC, Linzi, the capital city of the State of Qi [in the Eastern Zhou dynasty] had a population of 70,000 households. After Qinshihuang exterminated the Six States, he ordered the movement of 120,000 households from the states to move to Xianyang. This showed the size of cities at that time. One might say that, at least from the beginning of the Zhou and the Qin dynasties, the central plains area already had begun to form "large metropolises (the capital cities of the various Zhou states, and the prefecture cities of the Qin), small cities (the district cities of the Zhou dynasty, and the county seats of the Qin dynasty), and market towns (the small vegetable market towns of the Zhou dynasty, and the towns of the Qin dynasty)," which formed a city and town system. The establishment of these large and small cities and towns developed originally out of administrative necessity. They were both administrative centers for an area and also consumption centers in which nobility and officials, great and small were provisioned by the common people of the area. The nobility, rich and powerful people, and the landlords who subsequently appeared were able to rely on the strong city walls to protect themselves against retaliation from rebellious peasants. This was very much different from the situation in which the European nobility lived in private castles in their fiefdoms.

In traditional Chinese rural villages, the population's mobility is very low. Clan influence and traditional community norms have a very great effect on the peasant's daily lives. By comparison, urban populations possess relatively high mobility and more outside contacts, which help them absorb external culture and conduct economic exchanges. Individuals have more opportunities for development. In community culture, towns are between cities and rural villages.

Fei Xiaotong believes that China's traditional "cities" were regional political centers and areas in which landlords congregated to live. They were also financial centers and handicraft and commercial centers; however, no matter how the industry that was affiliated with the "cities" developed, in a community in which landlords were the main residents, the cities were characterized by consumption.⁹

In addition to cities, all areas also saw the gradual formation of country fair markets to supply peasants and handicraft industries with exchange goods, including "permanent communities that grew from a commercial

base," that is, towns. They were the local economic centers. This feature of towns was so prominent that in certain areas, the county seat city in which government was located was commercially indistinguishable from towns elsewhere in the county.¹⁰ In a nutshell, large cities were political centers as well as commercial and handicraft industry centers; county seat cities were mostly government centers; and towns were centers for the collection and distribution of commodities. However, in some sparsely populated and economically undeveloped remote areas, county seat cities usually also had the same functions as towns. In short, traditional cities and towns were not production bases, but rather communities characterized primarily by consumption. Landlords frequently sat idly in towns, enjoying rent from their land and making loans at usurious rates. They were provisioned from nearby rural villages. The features of administration and management as their main political function, and consumption as their main economic function were the main characteristics of the overwhelming majority of small cities and towns in China before liberation.

After modern Western power invaded China, modern industrial and commercial communities (such as Shanghai), which differed from traditional cities and towns, appeared mostly in the form of trading ports that might also be termed "metropolises." However, right up until the time of liberation, "metropolises were not independent production bases; they were largely brokering stations for foreign merchandise." After the advent of foreign merchandise, the landlords in cities and towns "gathered agricultural products from rural villages and sent them into the metropolises in exchange for foreign merchandise for their own consumption." Thus, the peasant's tax burdens increased, and traditional handicrafts markets were taken over by foreign merchandise. "Landlords in cities and towns increased their enjoyment, but the blood of rural villages gradually dried up."¹¹ Under these circumstances, preliberation "Chinese villages and cities (including both traditional cities and towns and modern metropolises) were at odds." Economically, the cities and towns exploited the countryside without providing villages and towns with any help in the form of production techniques, funds, or the means of production. This was the essence of the relationship between China's cities and countryside before liberation.

Before liberation, the area under control of a township was rather small. During the period immediately following founding of the People's Republic, there were 280,000 townships throughout the country. At that time, virtually every township held a country fair market on a specific day in which the exchange of products between peasants and individual handicrafters was extremely brisk for a time. By the early 1950's, small cities and towns revived their historical role and their function as centers for the exchange of commodities between cities and the countryside.

The agricultural collectivization movement, which began after 1955, concentrated land in cooperatives, and individual handicrafters in small cities and towns also organized handicraft industry cooperatives. Purchases of the means of production for agriculture and for city and town handicraft industries, as well sales of their products were organized by the cooperatives. Virtually no products from peasants' private plots remained for sale in country fair markets after peasants satisfied their own consumption needs. At this same time, both joint public-private ownership and state ownership of businesses restricted and extinguished the business activities of individual peddlers. Small cities and towns lost their agricultural trade country fair markets and they also lost individual businesses and service trades. Thus, some small cities and towns that set up town and commune administrative organizations as well as attendant state-owned industrial and commercial organizations carried on, but population declined. Other small cities and towns became hamlets.¹² This situation continued until the 1970's.

During this period the number of small cities and towns (particularly township towns) decreased sharply. Organic town population decreased 30 percent. Looked at in terms of the makeup of inhabitants, the structure of industry, and community functions, small cities and towns were largely the locations of grassroots-level governments and their agencies. Their economic position declined, and they became consumption communities.

After 1978, the development of China's small cities and towns entered a new period. This change was attributable primarily to two reasons. One was that, as a result of the institution of the output-related contract responsibility system throughout the far-flung rural villages, peasant families once again had the right to farm the land, and, after they turned over to the state contracted amounts of agricultural products, they were able to sell the remainder freely in country fair markets. Individual handicraft industries, service trades, and business activity were all permitted under the new policies as well. As a result, country fair trade revived and developed. In some places, peasants even pooled their own funds to build new towns. The other reason was the rapid rise of township and town enterprises. This process began during the mid-1970's in southern Jiangsu Province in the form of commune and production brigade enterprises, and it began in border areas in the early 1980's. These township and town enterprises were primarily processing industries for local agricultural by-products, and processing industries that satisfied the local public's need for building materials and consumer goods used in daily life. However, in places in which conditions for industrial development were better than elsewhere, such as southern Jiangsu and the Zhu Jiang delta, township and town enterprises began to produce household electrical appliances, commonly used chemicals, and machinery that were sold in large cities and even supplied for export.

Country fair trade, and township and town enterprises formed two pillars for the development of small cities and towns in recent years. The former enabled small cities and towns to revive their function as trade centers for local commerce that they served during the period immediately following liberation. The latter enabled small cities and towns to become new industrial centers. As compared with the two previous periods, the economic structure and function of small cities and towns gradually changed from that of consumption communities to production communities.

The structure of town residents' trades and vocations helps explain the character of the community structure and functions. Table 2 shows that, even though the town work force accounted for only 6.2 percent of the national work force in 1982, it had 30 percent of the staff

members and workers in the administrative sector nationwide, 26 percent of staff members and workers in commerce, 25 percent of staff members and workers in transportation, 28 percent of staff members and workers in the financial sector, and 21 percent of staff members in the service trades. These figures were far higher than the corresponding figures for cities and rural villages. In addition, the work force of towns was made up of 42 percent workers, 20 percent peasants, six percent cadres, 14 percent commercial service workers, and 13 percent technical personnel. These figures were likewise higher than the corresponding figures for cities.¹³ These figures show a revival in recent years of the historical role of small cities and towns as administration and management centers, and as commercial centers, and that they are continuing to develop into new small industrial bases.

Table 2. Trades and Occupations of Employed Population in China's Cities and Countryside (1982)

		Cities and Towns						Rural Villages		Total		Total (Unit: 1,000's)	
		Cities		Towns		Total		Vertical %	Lateral %	Vertical %	Lateral %		
		Vertical %	Lateral %	Vertical %	Lateral %	Vertical %	Lateral %						
Trade	Agriculture	24.5	5.2	20.9	1.8	23.5	7.0	87.8	93.0	73.7	100.0	38,433.9	
	Industry	42.3	48.6	37.3	16.9	41.0	65.5	6.1	34.5	13.7	100.0	7145.1	
	Construction trades	6.9	48.5	5.3	14.7	6.5	63.2	1.1	36.8	2.2	100.0	1,171.1	
	Transportation and communications	5.7	51.9	6.8	24.5	6.0	76.4	0.5	23.6	1.7	100.0	901.9	
	Business	7.2	58.1	12.1	25.5	6.6	63.5	1.4	36.5	3.0	100.0	1,542.2	
	Service trades	1.8	59.1	1.6	20.7	1.7	79.8	0.1	20.2	0.5	100.0	245.5	
	Science, education, culture, health	7.0	32.4	7.8	14.2	7.2	46.6	2.3	53.4	3.4	100.0	1,769.7	
	Finance and insurance	0.4	20.5	0.9	27.8	0.5	56.4	0.1	43.6	0.2	100.0	102.2	
	Government administration	3.9	40.1	7.2	29.3	4.9	69.3	0.6	30.7	1.5	100.0	801.4	
	Other	0.1	47.2	0.1	16.1	0.1	63.3	—	36.7	—	100.0	24.8	
	Total	100	15.7	100.0	6.2	100.0	21.9	100.0	78.1	100	100		
	Total (Unit: 1,000's)	8,176.2		3,242.4		11,418.6		40,719.1					
Occupation	Technician	11.3	35.1	13.1	16.0	11.8	51.1	3.2	48.9	5.1	100.0	2,644.2	
	Leading cadre	4.2	42.2	5.7	23.1	4.6	65.5	0.7	34.5	1.6	100.0	808.4	
	Government administrator	4.0	48.9	5.2	25.2	4.4	74.1	0.4	25.9	1.3	100.0	676.7	
	Commercial worker	4.2	36.5	6.8	23.5	5.0	60.0	0.9	40.0	1.8	100.0	942.8	
	Workers in traditional services	6.8	48.8	7.0	19.9	6.9	68.7	0.9	31.3	2.2	100.0	1,147.2	
	(Totals for the five above categories)	33.6	40.2	37.9	19.8	32.7	60.0	6.2	40.0	11.9	100.0	6,219.3	

Table 2. Trades and Occupations of Employed Population in China's Cities and Countryside (1982) (Continued)

		Cities and Towns				Rural Villages		Total		Total (Unit: 1,000's)	
		Cities		Towns		Total					
Agricultural workers	22.4	5.1	20.0	1.7	22.4	6.8	85.9	93.2	72.0	100.0	37,549.9
Production workers	44.7	44.8	41.8	16.3	44.6	61.1	7.9	38.9	16.0	100.0	8,320.3
Other	0.3	57.2	0.3	20.9	0.3	78.1	—	21.9	—	100.0	47.9
Total	100.0	15.7	100.0	6.2	100.0	21.9	100.0	78.1	100.0		
Total (Unit: 1,000's)	8,176.2		3,242.4		11,418.6		40,719.1			52,137.7	

1.—means percentage is lower than 0.1.

2. Source of Data: Chinese 1982 Population Census 10 Percent Sampling Data.

The gross output value of county, town, and township-operated enterprises in China as a percentage of the gross output value of industry nationwide has increased from 9.2 percent in 1978 to 17.7 percent. In 1987, gross earnings of township and town enterprises reached 293.4 billion yuan, and tax payments to the state of 16.8 billion yuan amounted to 7.2 percent of national financial revenues.¹⁴ Inasmuch as the state made virtually no investment in township and town enterprises, these percentages are of major significance. One might say that township and town enterprises have become an integral part of China's economic life that cannot be ignored.

IV. Movement of Rural Work Force Into Small Cities and Towns

China's agricultural work force as a percentage of the total work force declined from 81.6 percent in 1965 to 73.8 percent in 1978, and fell again to 59.4 percent in 1986. This change resulted mostly from the movement into township and town enterprises of the large amount of surplus labor that the contracting system emancipated from rural villages. Since China severely restricted entry into cities for residence and employment, small cities and towns became the main places in which peasants sought nonagricultural jobs.

The first form of movement of the work force was the so-called "shift from agriculture to nonagriculture," meaning a shift of the "agricultural population" to a "nonagricultural population." From 1980 through 1988, the number of people "shifting from agriculture to nonagriculture" totaled more than 40 million, an average of 4.7 million per year. The momentum is still on the rise with no signs of abating.¹⁵ The rural population that shifted in this way is reflected in government population statistics.

In practice, the peasants created two other ways in which the work force shifted that are not related to the prevailing city and town household registration and grain supply systems. The first was "leaving the land without leaving the countryside," meaning that the agricultural work force left the land and farming for long periods of

time or intermittently, taking up residence in small cities and towns to do nonagricultural work, while their household registration, their grain ration entitlement, and their families remained in the rural village.¹⁶ A 1986 survey showed that approximately 70 million members of the work force nationwide had left the land without leaving the countryside. The second way was to live as residents of rural villages close to small cities and towns, going into the towns to work in the morning and returning to the villages at night as regular as clockwork. Thus, they came to be termed the "pendulum population." These people were more deeply attached to rural communities and rural production than the peasants who had "left the land without leaving the countryside." A 1985 survey in Jiangsu Province showed that the "pendulum population" amounted to 27.6 percent of the total population of small cities and towns, and was as high as 36.4 percent in some counties.¹⁷ Even in Qiaotou Town in Ongniud Banner, Inner Mongolia, where the commodity economy is not very well developed, the "pendulum population" accounted for 7.4 percent of the total town population. Surveys conducted in Jiangsu, Shanxi, and Inner Mongolia showed that this population had to swing back and forth a distance of between five and six kilometers.¹⁸

Why are so many peasants willing to commute every day instead of moving into town? The shortage of housing in cities and towns is clearly one important reason, but there are three additional reasons: 1) A substantial number of peasants still want to hold two jobs. Not only do they want to return to the village to farm during the busy season in agriculture, but they sometimes like to engage in agricultural sideline occupations, so they cannot work too far away from the village. 2) The cost of living is higher in cities and towns than in rural villages. Making money in towns and returning to villages to spend it is a sensible arrangement. This is a situation similar to the "circular migration" that G. Hugo discovered on Java in Indonesia in which peasants go into cities to work.¹⁹ Life in a rural village is very different from life in a city or town. In rural villages, the land provides the peasants with grain; it is a place where chickens and hogs

can be raised and vegetables grown. The traditional community in a rural village provides peasants with mutual benefits and relatively stable employment. This differs from the living environment and interpersonal relations in cities and towns. In a certain sense, the "pendulum" phenomenon is necessary for the peasants to make a psychological transition from the traditional agricultural society way of life to the city and town way of life.

In 1984, the State Council ruled that "any peasants and their dependents who applied to go to a market town (a county seat town excepted) to work, do business, or operate a service trade, who had a fixed abode in a market town, was able to work, or who had worked in a township or town enterprise for a long period of time, would be permitted a long-term household registration" there, but the "added-price grain and oil ration" to be provided them would be different from that provided other city and town residents.²⁰ Such people might be considered as belonging to a fourth way of shifting the work force, namely an "approved shift from agriculture to nonagriculture." This way of shifting from agriculture to nonagriculture is also reflected in both household registration and government statistics. Although the size of the work force that changes from agriculture to nonagriculture in the other ways is very large, it is not reflected in government "town population" statistics.

In view of the foregoing situation in the shift of the rural work force to cities and towns, a new category of "town area population" was used in the 1985 Jiangsu small city and town survey that Fei Xiaotong directed. By "town area" was meant an area in which the population is relatively concentrated and in which buildings are grouped together, but the area is not under town government administrative jurisdiction. The "town area population" includes four parts: 1) "permanent residents" who live in the town area and who hold city or town household registration; 2) those living in the town area who have permanent household registration but enjoy provision of "added-price grain and oil rations"; 3) residents who live in the town area but maintain a rural village household registration; and 4) the "pendulum population." Clearly, the "town area population" concept is a handy one for our research.

V. Policy Factors in China's Small City and Town Development Process

In China, government policies are one of the most important factors affecting and restricting the political, economic, and cultural activities of the whole society and of people's daily life. Every major change during the past 40 years of small city and town development stemmed from a government change or readjustment of policies concerned.

1. The years 1949 through 1952 were the "economic recovery period." The government carried out a land reform campaign in the countryside in which it confiscated land from the landlords and distributed it to the

peasants. At the same time, it also confiscated landlord handicraft workshops and distributed them among handicraft industry workers. These policies greatly stirred zeal for production by the peasants and industrial workers in rural villages. Not only did they actively turn over products to the state, but they voluntarily sold products to city and town residents in markets, either themselves or through small retailers. Small city and town businesses, handicraft industries, and service trades boomed.

2. In 1953 mutual aid teams began to appear in rural villages. The agricultural cooperative movement that followed developed very quickly into preliminary-stage cooperatives and advanced cooperatives. The year 1958 saw the beginning of the people's commune system in which communes as conglomerates of workers, peasants, businessmen, students, and militiamen became one with local governments, and were the primary-level grassroots authority below the county. The monopoly procurement and monopoly sale policies that began in 1953 enabled state-owned businesses and supply and marketing cooperatives to monopolize the procurement, wholesaling, and retailing of all products in cities and the countryside. The handicraft industry and the transportation industry, which were collectivized at the same time as agriculture, organized most of the individual members of the work force in these trades into cooperatives, and a substantial number of small individual retailers and handcrafters left small cities and towns to make a living elsewhere. Policies during this period changed the administrative systems of small cities and towns and their economic and demographic structure. Small cities and towns were, generally speaking, in a period of slow development and structural readjustment.

3. In 1958, the government reworked household registration policies and began to restrict population movement. In 1960, it began serious restriction of the movement of the rural population into cities (including small cities and towns), and the "shift from agriculture to nonagriculture." At the same time, it carried out a complete retrenchment and return to the countryside of peasant workers and their dependents who had entered cities and towns during the Great Leap Forward of the early 1950's, causing a wave of movement of several tens of million people from "cities to small cities and towns and to rural villages." In 1964 the government readjusted the criteria for becoming a town, reducing the number of towns and the town population. The overall policy during this period was to restrict increases in cities and towns and in the city and town population. Under this policy, the economy of small cities and towns went into a recession.

4. The Great Cultural Revolution period, which began in 1966, stirred a large-scale movement of "going up to the mountains and down to the countryside." Graduating middle school students from among the residents of large and medium-sized cities and county seat towns also settled down in rural villages, further limiting the population growth of small cities and towns. The campaigns

to criticize capitalism and to "cut off the tail of capitalism" of this period restricted peasant households' family sideline occupations, and brought the remnants of country fair trade in small cities and towns to the verge of extinction.

5. After 1978, the country's far-flung rural villages gradually instituted family output-related contract responsibility systems. This new system permitted the peasants to sell their surplus agricultural products. This promoted the revival of city and town country fair trade and enabled the peasants to take the first steps toward accumulating a little money. Large quantities of surplus rural labor left agriculture to become an important factor in the development of township and town enterprises. Simultaneous with institution of the contract system, government permitted the coexistence of various forms of ownership in the economy. Thus, supported by labor, money, and policies, township and town enterprises, including businesses, service trades, and processing industries under individual, family partnership, various kinds of collectives, and community ownership quickly developed. Once again the small city and town economy thrived, and their populations increased markedly. However, a substantial portion of this increase was not reflected in government statistics.

6. Following consolidation of the contract system in 1980, the government drew up a series of new policies toward small cities and towns: a) The 1980 national conference on city planning proposed, for the first time, a policy to "control the size of large cities, rationally develop medium-sized cities, and make vigorous efforts to develop small cities and towns." b) In 1984, criteria for organic towns were readjusted, permitting the number of the country's organic towns to more than double. c) In 1984, restrictions on peasants entering cities to live were relaxed. d) Encouragement was given to the development of township and town enterprises; municipal state-owned enterprises and township and town enterprises were encouraged to go into partnership; and scientific and technical personnel as well as managerial personnel in cities were encouraged to go to rural villages to operate enterprises. e) Town development and construction plans were generally formulated, township and town level government financial units were established, and taxes to support cities and towns were levied to advance the building of small cities, towns, and town areas. Under encouragement of this series of policies, as Table 1 shows, China's organic towns developed rapidly.

In addition to the foregoing policies, which were directed specifically at small cities and towns, numerous other policies affected the development of small cities and towns in indirect ways. For example: 1) When economic policies (ownership, and product purchase and sales policies) limited or promoted the development of any

given economic component, they affected the economic situation and the industrial structure of small cities and towns as well. 2) Household registration control and movement policies affected both the flow of population between cities and the countryside and the demographics of cities and the countryside. 3) Population policies regulated population growth pressures everywhere in both cities and the countryside. For example, a relaxation of planned parenthood work might cause some townships and towns to become organic towns very rapidly as a result of rapid natural population increases. 4) Policies to assist the development of minority nationalities meant that criteria for minority nationality areas to form cities and towns were more liberal than for Han nationality areas, thus promoting the development of cities and towns in minority nationality areas. 5) Fiscal and financial policies (such as credit and tax policies) might affect the business of township and town enterprises. Sometimes the above policies had a single effect, and sometimes they had multiple effects.

VI. Urbanization and Industrialization of China's Small Cities and Towns

Urbanization is a process of profound social change. The position of towns in China's urbanization may be looked at from three different ways. One is changes in the town population as a percentage of the country's total city and town populations; the second is the size and makeup of the country's city and town population; and the third is the degree of balance in the development of towns in the country's provinces and autonomous regions.

China's urbanization has gone through a tortuous process of development since the founding of the People's Republic. From 1949 through 1960, city and town population rose steadily (see Table 3). In 1959 in particular, city and town population was 16.5 million greater than in 1958, reflecting development of urban industries during the Great Leap Forward. From 1961 through 1963, city and town population fell, only to rise gradually thereafter; however, city and town population as a percentage of total population showed sustained declines from 1966 until 1973, when it began to rise again. Table 3 shows that the speed of growth of urbanization in China has been extremely slow for a long period of time. It took 34 years for city and town population as a percentage of total population to go from the 10.6 percent of 1949 to 23.5 percent in 1983. During the period from 1953 through 1983, China's population virtually doubled, but during the same period the annual city population growth rate was 4.6 percent; the annual town population growth rate was 2.0 percent; and the annual rural village growth rate was 1.4 percent. Speed of growth of the town population was only slightly higher than for rural villages, and less than half that of cities. In the growth of China's city and town population, the town population played a secondary role for a long time.²¹

Table 3. City, Town, and Rural Village Population Over the Years

Year	Total City and Country Population		Including City and Town Population			Rural Village Population %
	Population (10,000)	Percent	Total %	City %	Town %	
1949	54,167	100	10.6			89.4
1950	55,196	100	11.2			88.8
1951	56,300	100	11.8			88.2
1952	57,482	100	12.5			87.5
1953	58,796	100	13.3	7.6	5.7	86.7
1954	60,266	100	13.7	9.6	4.1	86.3
1955	61,465	100	13.5	9.6	3.9	86.5
1956	62,828	100	14.6	10.1	4.5	85.4
1957	64,653	100	15.4	10.7	4.7	84.6
1958	65,994	100	16.2	11.1	5.1	83.8
1959	67,207	100	18.4	11.8	6.6	81.6
1960	66,207	100	19.7			80.3
1961	65,859	100	19.3	12.6	6.7	80.7
1962	67,295	100	17.3	11.4	5.9	82.7
1963	69,172	100	16.8	11.0	5.8	83.2
1964	70,499	100	18.4	13.2	5.2	81.6
1965	72,538	100	18.0	12.8	5.2	82.0
1966	74,542	100	17.9	12.6	5.3	82.1
1967	76,368	100	17.7	12.5	5.2	82.3
1968	78,534	100	17.6	12.2	5.4	82.4
1969	80,671	100	17.5	11.8	5.7	82.5
1970	82,992	100	17.4	11.9	5.5	82.6
1971	85,229	100	17.3	11.8	5.5	82.7
1972	87,177	100	17.1	11.9	5.2	82.9
1973	89,211	100	17.2	11.9	5.3	82.8
1974	90,859	100	17.2	11.9	5.3	82.8
1975	92,420	100	17.3	12.0	5.3	82.7
1976	93,717	100	17.4	12.0	5.4	82.6
1977	94,974	100	17.6	12.2	5.4	82.4
1978	96,259	100	17.9	12.4	5.5	82.1
1979	97,542	100	19.0	13.0	5.7	81.0
1980	98,705	100	19.4	13.6	5.8	80.6
1981	100,702	100	20.2	14.4	5.8	79.8
1982	101,541	100	20.8	14.7	6.1	79.2
1983	102,495	100	23.5	17.4	6.1	76.5
1984	103,475	100	31.9	18.9	13.0	68.1
1985	105,044	100	36.6	19.9	16.7	63.4
1986	106,529	100	41.4			58.6
1987	108,073	100	46.6	24.2	22.4	53.4

Source of Data: 1. State Statistical Bureau, *Chinese Statistical Yearbook*, (1988), Chinese Statistics Press, 1989, pp. 97, 101.2. Population Research Center, Chinese Academy of Social Sciences: *China Population Yearbook*, (1985), Chinese Social Sciences Press 1986, p. 845.

Table 4 shows the breakdown by city and town of the population figures obtained in the 1982 population census. Seventy-five percent of all cities had populations between 100,000 and 1 million, including 36 percent that had populations of between 100,000 and 300,000, showing the general size of cities. Seventy-nine percent of all towns had populations of between 5,000 and 50,000, including 27 percent with populations of between 10,000 and 20,000, showing the basic size of population in China's small cities and towns. However, in terms of absolute population figures, towns having a population of between 30,000 and 100,000 numbered more than half of all towns. Such towns are in the process of developing into small cities.

Table 4. 1982 City and Town Population Breakdown

	Population Breakdown*	Number of Towns	Population in Each (Million)
City	More than 4 million	4	21.06
	3-4 million	2	6.4
	2-3 million	7	16.3
	1-2 million	25	31.62
	500,000-1 million	47	33.21
	300,000-500,000	48	18.51
	100,000-300,000	89	16.74
	Less than 100,000	22	1.4
	Total	244	145.25million
Town	More than 100,000	24	3
	50,000-100,000	227	15.03
	30,000-50,000	412	15.74
	20,000-30,000	495	12.18
	10,000-20,000	707	10.40
	5,000-10,000	499	3.72
	3,000-5,000	119	.7
	Less than 3,000	119	.27
	Total	2,660	61.06

*City population does not include county population under municipal jurisdiction.

Source of Data: State Statistical Bureau: *Chinese 1982 Population Census Data*, (Computer Collation), Chinese Statistical Press, 1985, pp. 54, 87.

The degree of urbanization and development of towns in all of the country's 30 provinces, municipalities, and autonomous regions is unbalanced. Table 5 shows between 3.1 and 4.5 towns per million population in Jilin and Heilongjiang Provinces, with between 34,000 and 43,000 people in each town. It should be said that this is an area of greatest development of small cities and towns. In Fujian and Zhejiang Provinces, there are more

than four towns per million population, but the number of people per town is less than 20,000. In the southwestern provinces (Sichuan, Guizhou, and Yunnan), as well as in Hunan, the number of towns per million people is not small (more than three), but their population averages less than 15,000. Historically, these areas have had numerous small cities and towns scattered all over like stars in the sky that served as country fair trade centers connecting cities and countryside, mountain areas, and the plains in economic exchanges. Although Shandong and Henan Provinces have few towns per million population, their population is relatively larger, reflecting the character of the plains area. The four autonomous regions of Ningxia, Xinjiang, Inner Mongolia, and Tibet are vast pastoral regions in which population density is relatively low. Because of the widespread building of towns for government administration purposes, there are a large number of towns per million population, but the population of each is very small.

Table 5 shows that areas having less than full development of organic towns in 1982 are Hebei and Qinghai Provinces, where there are fewer than one town per million population. Within the confines of Hebei Province lie the exceptionally large cities of Beijing and Tianjin, each with a population of more than 5 million. These two cities and the 21 towns under their jurisdiction satisfy, to a certain extent, the needs of nearby rural villages in Hebei Province for trading sites. The Gobi Desert and pastoral areas dominate Qinghai. As of 1982, the provincial government had established towns in only four of the 37 counties in the province. This situation changed in 1984.

Table 5. Organic Towns in Each Province in 1982

	Number of Towns	Population Per Town (1,000)	Towns per Million Population
Beijing	14	27	—
Tianjin	7	27	—
Hebei	50	24	0.94
Shanxi	48	22	1.90
Inner Mongolia	102	23	5.29
Liaoning	93	35	2.60
Jilin	101	34	4.48
Heilongjiang	101	43	3.09
Shanghai	33	20	—
Jiangsu	114	25	1.88
Zhejiang	165	19	4.24
Anhui	118	18	2.38
Fujian	119	18	4.60
Jiangxi	106	21	3.19
Shandong	97	57	1.30
Henan	109	33	1.46
Hubei	127	22	2.66

**Table 5. Organic Towns in Each Province in 1982
(Continued)**

	Number of Towns	Population Per Town (1,000)	Towns per Million Population
Hunan	186	14	3.44
Guangdong	132	30	2.23
Guangxi	92	20	2.53
Sichuan	309	14	3.10
Guizhou	93	14	3.26
Yunnan	128	14	3.93
Tibet	9	8	4.76
Shaanxi	81	18	2.80
Gansu	44	23	2.25
Qinghai	4	27	0.98
Ningxia	14	15	3.59
Xinjiang	64	17	4.89

Source of Data: State Statistical Bureau: *Chinese 1982 Population Census Data*, (Computer Collation), Chinese Statistical Press, 1985, pp. 88-150.

The number of towns and the size of their population are related to the local industrial structure (agriculture, animal husbandry, and secondary and tertiary industries), the towns' major functions (administrative center, trade center, or industrial and mining base), and the attitude of the local government toward the establishment of towns. It also relates to historical circumstances. An overwhelming majority of today's small cities and towns have developed gradually from an existing foundation.

Small cities and towns hold an important position in the country's urbanization and industrialization.

The economic strength and the number of staff members and workers in township and town enterprises in China today show that small cities and towns serve as a foundation for the industrialization of China's rural areas. According to statistics, the gross output value of township and town enterprises nationwide for 1987 was 474.3 billion yuan, or half the rural gross output value for the year. In 1987, township and town enterprises produced 29 percent of the country's machine-made paper and paper board, and 26 percent of its raw coal. In the same year, staff members and workers in township and town enterprises numbered 87.76 million (the number of staff members and workers in enterprises under ownership of the whole people nationwide for the same year was 96.54 million).²² The position of township and town enterprises in China's economy should not be underestimated. Today, nearly 100 million of the 400 million peasants nationwide have become staff members and workers in township and town enterprises, demonstrating the role of small cities and towns as a foundation for progress in the industrialization of China's rural villages. This is a profound change in Chinese society, and the most important accomplishment of 10 years of reform.

Rural industrialization and the development of small cities and towns hold important significance for China's building of a healthy, balanced industrial system and urban system. From the mid-1950's until the late 1970's, China constantly stressed a planned economy, and limited or extinguished the commodity economy. In this way, the flow of both city and countryside products was completely controlled by government organs. In addition, requiring the peasants to "take grain as the key link" under people's commune control limited peasants from developing economic diversification and moving into secondary and tertiary industries, and it prevented them from entering cities, thereby causing a further disjunction between cities and the countryside. In this process, the role of small cities and towns as links between cities and the countryside unavoidably atrophied.

A country's city and countryside system is a multilevel network in which small cities and towns are the major intermediate link. For a long time, numerous developing countries have shown a bias toward the development of cities (particularly the capital city), which is termed a "city bias (policy)." Such a policy can put limited funds to work to create a superficial booming of urban industry and construction within a short period of time, but the backward countryside is bound to exert a drag on urban development, and may create serious antagonism between cities and the countryside as well as social instability. An Indian scholar noted that the greatest problem affecting India's development is this separation of cities and the countryside. He suggested that India build a large number of market towns to link the city and countryside economies, providing impetus for all-around development.²³ Achieving this with the Indian administrative system and economic system will not be easy. By comparison, such a possibility exists in China. Strategically speaking, China's policy of supporting the development of small cities and towns, and township and town enterprises is extraordinarily far-sighted.

Township and town enterprises and the development of small cities and towns also bring far-reaching social benefits. The process of development of township and town enterprises is a process in which several hundred million peasants are converted into workers. It is a process in which surplus rural labor, which exerts population pressure, is transformed into a force for the development of rural industry. When several hundred million peasants, who have lived for a long time in an economy of self-sufficiency and whose activities are unfocused, are gradually changed into workers possessed of a certain amount of skills and education, who submit themselves to factory discipline, and who work diligently and conscientiously in factories, the living habits, value orientation, and many ideas and customs of these peasant workers begin to change. They are changing from "country people" into "town people" and "city people." Moreover, the main carriers in this process of change are small cities and towns and township and town enterprises. At the same time, the development of small

cities and towns plays a direct role in promoting development of rural villages. Township and town enterprises not only help rural villages reduce population pressure, but also provide the money in various ways for the technical transformation and the capital construction of agriculture. Small cities and towns introduce modern thought concepts, technical information, and management experiences of cities into small cities and towns, and pass it along to the far-flung rural villages, thereby becoming media for China's 800 million peasants coming in contact with modernization. Their role in the modernization of agriculture cannot be underestimated.

Footnotes

1. Population Research Center, Chinese Social Sciences Academy: *China Population Yearbook*, (1985). Chinese Social Sciences Press, 1986, pp. 91-95.

2. According to State Statistical Bureau statistics, China had a town population of 560 million in 1988, or 51.3 percent of the population of the country. This percentage cannot be used to represent the actual level of the country's urbanization.

3. Luo Maochu [5012 5399 0443]: *Review and Evaluation of China's Small City and Town Development Policies*, (Tianjin ICUUPP [expansion unknown] Conference document, 1987).

4. Fei Xiaotong: *Four Marks of Small Cities and Towns*, Xinhua Press, 1985, p. 10.

5. As an example, Qiaotou Town in Ongniud Banner in Inner Mongolia has 650 households of permanent residents, only 7 percent of whom are peasants.

6. State Statistical Bureau: *China 1982 Census Data*, (Computer Collation), 1985, p. 87.

7. According to a 1985 survey of 190 small cities and towns in Jiangsu Province, county seat towns were approximately nine square kilometers in area and had a population of 64,000. Organic towns had an area of two square kilometers and a population of 14,000; and township towns were one square kilometer in area and had a population of 5,000. Wang Shengbai [3076 5116 4101]: "Status and Features of Small Cities and Towns," contained in *Analysis of Small City and Town Areas*, China Statistical Press, 1987, p. 35.

8. Fei Xiaotong: *Four Marks of Small Cities and Towns*, pp. 20-21.

9. *Selected Works of Fei Xiaotong*, Tianjin People's Press, 1988, pp. 314-316.

10. Ibid., pp. 314-316.

11. Ibid., p. 306.

12. Ibid., pp. 333-336.

13. Sampling data on population movement in 74 towns nationwide for 1986 that the Demographics Institute of

the Chinese Academy of Social Sciences assembled also show a trade and vocation structure of the town work force close to that of the third general census.

14. State Statistical Bureau: *Chinese Statistical Yearbook*, (1988), p. 287.

15. GUANGMING RIBAO, 3 March 1989.

16. Zhu Tonghua [2612 6639 5478]: "Leaving the Land Without Leaving the Countryside," JIANGHAI STUDENT BULLETIN, 1985, Issue 2.

17. *Regional Analysis of Small Cities and Towns*, China Statistical Press, 1987, p. 3.

18. Ma Rong: "The 'Pendulum Population' and Changes in China's Rural Work Force," NONGCUN JINGJI YU SHEHUI [RURAL ECONOMY AND SOCIETY], 1988, Issue 4.

19. G. Hugo: "Circular Migration in Indonesia," POPULATION AND DEVELOPMENT REVIEW, 1982, 8 (2), pp. 59-83.

20. RENMIN RIBAO, 22 October 1984.

21. Post-1984 figures include the population of villages under town jurisdiction. Figures were not quoted because they cannot be compared.

22. *Chinese Statistical Yearbook*, 1987, pp. 287, 377.

23. Sudhir Sen: *Reaping the Green Revolution*, (New York: Orbis Books, 1975).

Survey of Changes in Social Structure Since Reform

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[Article by Yan Xiaofeng (7051 5135 6912), Wang Hansheng (3769 3352 3932), Shi Xianmin (4258 0341 3046), and Lin Bin (2651 1755), Beijing University "Social Differentiation" Problems Group: "Differentiation and Integration of China's Social Structure at the Present Stage"]

[Text] This article objectively describes and analyzes the differentiation of China's social structure during the past 10 years, and states its own views about the problem of integration in the course of differentiation. The authors believe reform and opening to the outside have not only infused the national economy with unprecedented vitality, but have also pervaded society, politics, culture, and the national psychology, enabling Chinese society to go through dramatic and profound changes within the short space of 10 years. Accompanying these changes has been a structural differentiation of Chinese society. The authors discuss one by one the regional differentiation, organizational differentiation, and individual differentiation during the present stage, and point out how to maintain political, economic, and cultural integration in

the midst of differentiation in order to ensure the integrated development of society. This has become a serious problem facing us.

Writer Yan Xiaofeng [7051 5135 6912] was born in 1963, and is a research fellow at the Beijing University Social Sciences Institute. Wang Hansheng [3769 3352 3932] was born in 1950. He is a professor in the sociology department of Beijing University. Shi Xianmin [4258 0341 3046] was born in 1954. He is a doctoral student in the sociology department of Beijing University. Lin Bin [2651 1755] was born in 1953. He is a professor in the sociology department of Beijing University.

1. Posing the Problem and Methods of Observing the Problem

1.1 Prior to 1978, China's society was characterized by a static state of little differentiation, slow differentiation, and low social mobility. This situation began to change in 1978. Economic system reform, which began in the rural villages and spread to cities, not only infused the national economy with unprecedented vitality, but also had a widespread effect on society, politics, culture, and psychology, with the result that Chinese society went through dramatic and profound changes within the short space of 10 years. Accompanying these changes, Chinese society underwent marked structural differentiation.

1.2 The differentiation concept originated in biology and was later widely applied by sociologists. Scholars usually study this differentiation from four different angles, namely functional differentiation, structural differentiation, the differentiation of interests, and cultural differentiation. Functionalists maintain that modernization is a process of functional differentiation in which there is no change in the kinds and amounts of society's original functions, but that these functions are steadily broken down into individual units, enabling more efficient completion. This occurs in the same way as family production and education functions are broken down to be performed in factories and schools. Moreover, the differentiation of interests and cultural differentiation relate both to clashes between interest groups and cultural clashes in the course of society's transformation. The focus in discussion of problems in this article is on structural differentiation, that is, the constant appearance of new social positions as well as the redistribution of the members of society in various social positions. China's reforms are epoch-making structural changes, not cyclical changes. This means a readjustment of group interests and the integration of the social mechanism on a foundation of differentiation. The social structure that has been formed or that will be formed by this integration will have a far-reaching effect on China.

1.3 Chinese society is still undergoing epoch-making dramatic changes, its social groups are now assembling, now dispersing. It is still impossible to point to well-defined, stable groups or strata. Consequently, we can understand the characteristics and the causes of this

differentiation only from a dynamic rather than a static angle, as well as the possible effect it may have on future Chinese society.

1.4 Unlike the individual differentiation of the West, China's differentiation consists mostly of a differentiation of organizations and blocs; thus, one ought not dwell on the individual level, but should study differentiation against a broad regional and organizational background. Actually, the differentiation of individuals, organizations, and regions all form a mutually reinforcing relationship.

1.5 The noneconomic factors of administrative power, and the inertia of tradition play no small role in the differentiation of Chinese society, and we should give them sufficiently serious attention.

1.6 Social differentiation is an inevitable historical process that is irreversible. Differentiation should not be construed as fracturing and disintegration. Of course, social differentiation ramifies into a series of important social issues. Paying attention to and solving these issues will become a key to future success or failure in reform. While elucidating the characteristics and trends of social differentiation at the present stage, this article also pays attention to the issue of integrated, steady, and harmonious development during differentiation.

2. The Broad Picture and Characteristics of the Structural Differentiation of Chinese Society at the Present Stage

2.1 The structural differentiation of society at the present stage is manifested first of all in the large-scale and rapid increases in new social positions. The number of social groups that have appeared, such as individual entrepreneurs and owners of privately run enterprises, is 10 times larger today than before 1978. In 1987, more than 20 million people were operating privately owned or individually owned businesses.

The differentiation of society is also manifested in a change in the meaning of former social roles. Take the peasants as an example, many of whom are no longer traditional-style agricultural workers, but rather collective producers and managers their whole life long. They may be peasant workers, or they may be labor contractors, the heads of peasant enterprises, or the owners of private businesses. Roles within groups in which status was formerly very much the same have also changed. Examples are administrative cadres, personnel having specialized technical skills, and leaders of enterprises (plant managers and directors), all of whom are cadres; however, since they command different resources and authority, a differentiation has occurred to one degree or another in their socioeconomic position and prestige.

2.2 Yet another way in which differentiation is manifested is the marked widening of the income gap among members of society. The results of a sample survey of household living expense income that the Tianjin Municipal Statistical Bureau conducted in 1988 showed

that the 20 percent of low-income households among the employed population had a per capita income of 796.80 yuan, while the 20 percent of high-income households among the employed population had a per capita income of 1,854.48. The income gap between high and low, which was double in 1985, was 2.33-fold in 1988, the amount of difference rising from 584.08 to 1,057.68 yuan. The most conspicuous indicator of the widening of the income gap is the appearance of a high-income group. Although there are not a large number of people in this group, since its income is vastly greater than that of the ordinary members of society, it attracts particular attention. In 1986, the country had 4.37 million households (or approximately one-fortieth of all households in the country) with a net income of more than 10,000 yuan, more than 4,000 of which (or 0.002 percent of the total number of households) had incomes of 1 million yuan. The makeup of this high-income group was rather complex. A 1989 Shanghai survey showed the high-income earners largely to be households in the individual economy, privately owned enterprise proprietors, enterprise lease contractors, and the Chinese manager and "official profiteer" of joint-venture enterprises. These people's wealth is legal, but there are many whose wealth is semilegal or illegal. Consequently, they frequently become targets for criticism by public opinion and the masses.

2.3 The present differentiation of the country's social structure shows up at more than the individual level; it also shows up at the regional and organizational levels. The historically uneven economic development of different parts of the country has been further accentuated during the past 10 years. Take per capita earnings as an example. In 1980, the ratio of peasant income for west, central, and east China was 1:1.05:1.27, and it widened with each passing year reaching 1:1.21:1.6 by 1987.² During this period, a large number of new organizations, such as township and town enterprises, came into being. A certain amount of differentiation also occurred between administrative organizations and economic organizations. Furthermore, a certain disparity occurred among economic organizations in different industries, under different forms of ownership, and of different sizes.

Regional and organizational differentiation gave rise to differences in status, but people in different regions and organizations no longer enjoyed equal social status and economic income. For example, despite their common status as workers, workers in foreign-funded enterprises had incomes double or several times greater than workers in state-owned enterprises.³

2.4 The country's social differentiation at the present stage is manifested not only in differences in the level of economic development and structural differentiation, but also in the local government administrative actions and diversification of policies that accompany differentiation. Because of the different proportions of industries of various kinds and different forms of ownership in different areas, local governments adopt a different

emphasis. Local government "biases" with regard to investment, employment, support, and mobility ultimately affect individuals; thus, individual room for choices, lifestyles, and even cultural life vary from one place to another.

2.5 Social mobility has increased rapidly with the deepening of social differentiation. The members of society scramble to get into some industries whose earnings are higher than most (such as tertiary industries), occupations (such as taxi drivers), and areas (such as special economic zones). Such a redistribution of personnel in these various social positions ultimately leads to a change in the social structure.

2.6 The differentiation of society in the Western world resulted from the role of the market economy over a period of several hundred years. The differentiation of individuals in society in the capital formation and accumulation process produced different classes and strata. However, China's former planned economy is currently in a period of change in form in which plan regulation and market regulation supplement each other. Consequently, administrative intervention, and policy direction still have a decisive influence on the social differentiation process. For example, the sudden rise of managers or groups of entrepreneurs does not result from repeated eliminations and the competition of a commodity economy. Instead, the differentiation of this group from the original cadre group is directly attributable to the policy of "separation of government administration and enterprise management."

2.7 The differentiation of Western society was based on the individual, and thus was prone to a differentiation into two extremes of rich and poor. In China today, however, the differentiation is based on the organization in which an individual is located, or his "unit." Although there is a certain amount of differentiation between one organization and another, a very high degree of homogeneity is maintained within an organization or unit.

2.8 The longstanding status barrier between city and countryside generated a duality throughout the entire social structure. This duality in the social structure is responsible for the current differentiation between the two walled-off entities of cities and the countryside, which proceed independently of each other. This has given rise to a duality in the mode and features of differentiation in cities and the countryside.

3. Regional Differentiation at the Present Stage

3.1 Even before reform, there were imbalances in the level of development between one region and another. These imbalances showed up mostly in economic levels. Per capita income, and level and speed of economic development exhibited decreased increasingly from the seacoast going inland and on to the frontier regions. This regional economic differentiation formed a "double disjunction" in the distribution of resources, meaning that natural resources tended to be located in the west, and production capacity and key economic elements tended

to be located in the east and were becoming increasingly concentrated there. For a long time, this regional economic differentiation did not have an effect on individuals within regions or on differentiation within organizations, which is to say that differences in the social structure and modes of behavior did not vary greatly from one region to another.

3.2 Following reform, regional differentiation continued from the original foundation of differentiation for a dramatic widening of differences in economic level between one area and another.⁴ In order to halt this spread, some policies were further expanded, including policies to provide help to the needy and "taking from prosperous areas to help needy areas," none of which achieved anticipated results. It is possible to foresee that these present regional imbalances will tend to widen further. It is noteworthy that as the economic gap widens between areas the social structure and behavior of individual areas have also begun to differentiate. The differences between one area and another in terms of industry and the ownership structure have brought about differing government practices and enterprise practices, which are bound to effect individual choices. For example, there is a very great difference between the regionally developed economies of Wenzhou and southern Jiangsu in percentages of different kinds of ownership and ways of doing things.

3.3 Regional differentiation at the present stage is a differentiation that is bounded by administrative zones, with different degrees of differentiation occurring between one province and another, one county and another, one township and another, and one village and another, the differentiation between each greatly exceeding the differentiation within a given one. The fiscal reform policy that was marked by dividing revenues and expenditures between the central and local governments and holding each responsible for balancing its own budget, and the delegation of authority brought about a certain degree of differentiation between the authority and interests of the central and local governments. This differentiation gradually strengthened the independent interests of local governments. Regional differentiation defined by administrative communities is the result of just such a strengthening of these independent interests.

3.4 In every country a problem of imbalance between one region and another exists to a certain extent. Taking the United States as representative of Western countries, the basis for the differentiation of the middle region of the United States is the principle of an economic division of labor. The economic development of individual areas may differ, but because of the role that the labor market plays, the frequent movement of people between one area and another maintains a general balance in per capita income between one area and another. In China, however, regional differentiation is manifested, first of all, in a widening of the per capita income gap between

one area and another. This is closely related, no doubt, to the immobility of production factors (labor and capital) at the present stage.

Regional differentiation bounded by administrative zones sets up barriers between one region and another. Barriers and differentiation are mutually reinforcing: Differentiation raises the barriers, and the immobility of the elements of production that the barriers cause further deepens differentiation. The members of society in each region have a specific status as citizens, and this status is a cachet of certain qualifications within the region, but, in another region, it becomes a barrier to movement. People not from a region ("outsiders") cannot very easily blend into local life. This reinforces blood ties and geographic ties, in turn, thereby increasing difficulties for cross-regional organizational contacts. The immobility of capital is also similar to the immobility of status. It is even more directly manifested in local interests, namely "not allowing any advantage slip away to others." Moreover, although commodities have greater mobility than the other two, ultimately local protectionism also impedes their flow.

3.5 It is the formation of just such barriers that causes independent development of each area in isolation. Thus, prior to reform, this caused a differentiation in the uniform model of rural development and a similar social structure in China. Each area began to exhibit a social structure and a development model bearing its own imprint. The Wenzhou model, the southern Jiangsu model, and the Zhu Jiang model are all examples of this difference.

3.6 Regional barriers create interregional clashes. The independence of the internal interests of each region results in certain "blank zones" in administrative control, with the result that peculiar phenomena such as "wool wars," "silkworm cocoon wars," and "eel fingerling panic-buying" as well as "special excess-production zones" occur.

3.7 Regional isolation makes the principle of the benefit of scale difficult to realize. Neighboring communities frequently are unable to become part of the same development system because they are in different administrative zones. They rarely invest in each other, and each of them even builds its own roads without reference to the other.

4. Organizational Differentiation at the Present Stage

A. Organization Prior to Reform

4.1 The organizational structure of Chinese society in feudal times possessed two polarized characteristics as follows: At one pole was the administrative bureaucratic organization whose authority derived from the emperor and that held the nation's resources. At the other pole was the basic clan system founded on blood lines and geographical lines. Between the two were special organizations (such as industrial, commercial, and public service organizations) founded on worker division of labor

and contract relationships. Although these developed substantially in modern times, they were largely dependent on bureaucratic organizations, relied on clan organizations, and were concentrated in cities. Thus, these special organizations did not have an important and independent influence in socioeconomic life as a whole.

4.2 The victory of the Chinese revolution in 1949 smashed the existing bureaucratic organization and weakened clan power. Advances in national industrialization relied on powerful administrative methods for the rebuilding of a new organizational structure, namely the juxtaposition of government organizations at all levels for the purpose of controlling national resources and for administration and management with various special organizations (entrepreneurial units and rural production organizations) founded on a social division of labor.

4.3 The state instituted level-by-level and sector-by-sector administration throughout society, that is, central government and local government control at all levels, in a system of decentralized authority under centralized central government control. Local governments at all levels were under jurisdiction of the central government, and they simultaneously represented the independent interests of all jurisdictions. Furthermore, all special organizations were either directly or indirectly subordinate to a government organization at some level, with their resources distributed and regulated by a government organization. Thus, the special organizations had a certain degree of decisionmaking authority within special functional limits.

4.4 Since all organizations were either directly or indirectly under central government jurisdiction, and since the central government practiced level-by-level administration and control, each organization occupied a certain position within a pyramid organizational system. In addition, the state regulated and controlled individual activities through various organizations or units, also distributing their means of subsistence. This meant that the special organizations took the place of the former clan organizations, and became basic units of social and economic life. Each unit had to satisfy the economic, welfare, social support, and security needs of members of its organization, and each member had to be responsible to his or her unit.

4.5 Chinese social organization may be characterized in the following ways: 1) Each individual organization gets state resources according to its ranking in different orders. Organizations at the same level are substantially alike; the movement of resources and personnel between one organization and another is very difficult, and mutual contact and cooperation between different organizations is fairly difficult. 2) All organizations bear the dual functions of bearing responsibility for administration and controlling daily life. Within organizations, methods of control are influenced by personal relations and egalitarianism. 3) Organization members receive

fixed cash income and other benefits according to a uniform administrative rank or occupational grade.

B. Postreform organizational differentiation

4.6 Organizational differentiation since 1979 has proceeded from the above foundation, with changes taking place in the unitary vertical relationships between the state, units (collectives), and individuals. No longer is social control exercised solely through administrative control, but rather by acceding to market control. This change is particularly evident in rural villages.

4.7 In a vertical sense, the differentiation of government organizations is manifested in a division of authority by which the central government and local governments divide revenues and expenditures, each being responsible for balancing its own budget. In a lateral sense, it is manifested in a separation within government organizations of departments having economic control functions and purely administrative departments. This change increases local government benefits and department benefits. Between government organizations at all levels and special organizations, a differentiation has taken place that is characterized by a "separation of government administration and enterprise management, and of making concessions and delegating authority." Furthermore, within special organizations and among entrepreneurial units, since control of resources differs following the delegation of authority, a substantial difference has taken place. Rural family organizations have increased their economic functions relative to urban family organizations.

4.8 In addition to changes in the former organizational relationships, organizational differentiation is also manifested in an increase in the types of organizations and changes in their locations.

a. A large number of civilian organizations between the state and individuals, such as various societies, trade associations, and academic associations, have come into being. Among them, the increase in spontaneously organized peasant organizations is particularly outstanding. This proliferation of civilian organizations is attributable to a very great extent to the spontaneous desires of members of society to organize them. How to increase control over them is an important issue to be studied.

b. Diversification of types of ownership. Marked changes have occurred in the proportion of organizations having various kinds of ownership, including individual and privately owned enterprise organizations, which supplement the socialist publicly owned economy. Their appearance has changed the former social structure.

c. Marked changes in the spread of enterprise sizes as well. Medium-sized and small enterprises have increased rapidly, but the increase in large enterprises has been relatively slow. In 1988, the number of large, medium-sized, and small enterprises in the country was 3,178,

7,498, and 410,253, respectively, the ratio of the number of large enterprises to medium-sized and small enterprises being 1 to 131.⁵

d. Changes in organizational subordination. Organizations under local jurisdiction have increased markedly faster than organizations under central government control. Simultaneously, a large number of economic corporations under all levels of government jurisdiction have appeared.

4.9 Economic organizations have differentiated into two types. The first type is large modern enterprises with a fairly high degree of organization. The other type is those that have sprung up like mushrooms. These are township and town enterprises or family enterprises founded on blood ties or geographical ties. The former are superior to the latter in terms of their level of technology, quality of personnel, and ability to bear risks.

The differentiation of organizations also entails a recombination of organizations. The current types of economic organization in China determine that links between enterprises will be largely between large enterprises or between large enterprises and small enterprises, but very few between small enterprises.

4.10 Regional differentiation and organizational differentiation have strengthened local governments' awareness of their interests. In consideration of their own interests, governments at all levels have instituted different "favoritism policies" with regard to different types of local organization. This is a direct reason for organizational differentiation. A given area's different industrial and ownership structure and the local government's special "favoritism policies" result in different organizations occupying different survival niches, thereby leading to differences in individual room for making choices. To give an example, the favoritism that the coastal special economic zones show toward the three kinds of partially or wholly foreign-owned enterprises, and the preferential treatment that the Zhu Jiang delta shows toward three forms of import processing and compensation trade enterprises puts these types of organizations in a dominant position that is higher than that of other types of organizations, so individual social choices have tended successively toward these types of organizations.

5. Individual Differentiation at the Present Stage

5.1 By individual differentiation is meant the emergence of new social groups, and the differentiation and pluralization of roles within old groups. It also means changes in the distance between the social positions of members of society, and modifications in the intension and types of social positions.

Similarities to the period of large-scale industrialization immediately following liberation are as follows: The differentiation of members of society during the past 10 years of reform is likewise an outgrowth of the role of the dual forces of administrative intervention and economic

development. A series of urban reform measures, including the separation of government administration from enterprise management, the simultaneous existence of different economic forms, and the booming development of tertiary industries triggered differentiation of the formerly undifferentiated social structure. Likewise, the promotion of rural policies of "contracting production to individual households," and the development of township and town enterprises greatly spurred the differentiation of peasant groups. Because they were an outgrowth of the role of administrative intervention and economic reform, these differentiations are bound to be changeable and impermanent. Since the people who make up many new groups are not sure of themselves, and since their sense of compatibility or group awareness is not strong, groups such as enterprises, heads of privately owned enterprises, and individual entrepreneurs, as well as peasant workers, and workers in township and town enterprises can revert to their old groups should circumstances change.

5.2 The resources that groups or "units" in society control at the present stage, and the benefits they derive have changed very greatly, and may be extremely equal within groups or units. As reforms proceed vertically and the distance between groups increases, there has been no weakening within groups of the tendency toward equality or egalitarianism. Consequently, unfairness in society during the new era is not the dual unfairnesses of inequitable distribution and egalitarianism.

5.3 There are certain identical or similar phenomena in both urban differentiation and rural differentiation. In urban and rural communities, they show up in similar group inequities. In cities, they show up in differences or differentiation among individual groups, industries, trades, occupations, and units. In rural areas, there is organizational differentiation between communities, and among individual households within communities.

It is noteworthy that there exists within both urban and rural groups a certain impetus toward evenness that springs from identical cultural roots. For example, the Gini coefficient of city and town staff member and worker family income declined from 0.185 in 1977 to 0.168 in 1984. After instituting structural wages in 1985, the ratio between wages of high- and low-ranking working personnel fell from 3:1 to 2:1.⁶ In entrepreneurial units, the ratio between high and low wages declined in varying degrees (for example, the ratio between wages of researchers in institutions and researchers in the field fell from the former 3:1 to the present 2:1); however, enterprise bonuses were issued without regard to rank or quality.⁷ In every case, each person received a single share. Since the percentage of bonuses given in cash was fairly high, the single bonus portion per person virtually obliterated small structural wage differences. In rural villages, this impetus toward evenness was manifested in various compensation mechanisms, namely getting prosperous people or people from the same village to buy shares in factories or to bear

responsibility for a series of contributions, assessments, or assistance to the local community.

5.4 Despite the certain similarities in differentiation within city and country communities, cities and rural villages belonged to two very different regions. The 200 million urban residents, and the 800 million peasants differentiated within their respective walled-off areas, with the result that the differentiation of interests of city residents generally did not affect rural villages or arouse the peasants' misgivings, and vice versa.

In cities, differences in group interests were manifested in the following: 1) The difference between those receiving fixed income and those receiving no fixed income. Among those receiving no fixed income, those who used improper means to get various kinds of "kick-backs," "percentages," and "payments for benefits received," often made more than those receiving fixed wages, becoming outstanding expressions of social corruption. 2) Differences in income of staff members and workers in different systems of ownership. Usually the earnings of staff members and workers in civilian-run companies, privately owned enterprises, and wholly foreign-owned or joint-venture enterprises were double or more the earnings of staff members and workers in enterprises under ownership of the whole people or collective enterprises.⁸ 3) Differences in income in different occupations. Certain "hot" occupations such as taxi drivers, and tourist guides have abnormally high incomes.⁹ 4) Differences in income in different industries. In 1985, earnings in the construction industry, the highest, were 77 percent higher than in the textile industry, the lowest; and, in 1987, they were 90 percent higher. 5) Differences in income of mental workers and physical workers, which is the so-called "brain and brawn inversion." It should be noted that the lowest earnings in high-income groups were frequently higher than the highest earnings in low-income groups.

In rural villages, the difference in group benefits shows up in a widening of differences in rural communities in different regions, and between families in the same community. Peasants who live near the suburbs of the three municipalities in the country that are under national government jurisdiction [Beijing, Tianjin, and Shanghai] and in south China frequently have earnings three to four times higher than peasants in frontier regions.¹⁰ Within the same village, the difference shows up in families, meaning between rich and needy families.

It is the above difference in differentiation between cities and the countryside that causes city residents to have a strong hierarchical sense or a group sense of interests, while the peasants have more clan consciousness.

5.5 It must be pointed out that up to the present time, China's greatest group difference was and still remains the tremendous difference between the two blocs of the city and the countryside. This difference shows up not only in cash income, but, more important, in noncash welfare and living conditions and opportunities. After

rural villages instituted the contract system, the peasants' income really did rise. Between 1978 and 1987, the ratio between city and countryside income narrowed from 2.36:1 to 1.97:1.¹¹ However, in some fundamental social welfare or preferential terms, no equitable readjustment has yet been made between cities and the countryside.

5.6 Rural reform has directly linked the peasants to production methods, and city residents have been linked indirectly to production methods through their "units." This distinction between direct and indirect determines the difference in differentiation of rural villages and cities. Rural differentiation has a rather strong element of self-attainment, while urban differentiation has a rather strong element of having been conferred. Urban residents cannot leave their units. Their individual circumstances within their units are determined largely by how well their unit does. If they are unhappy with a unit, all they can do is leave it and look for a new unit, and this is no easy matter by any means. The situation is different in rural villages where peasants are directly linked to production methods, and thus can regulate differences between each other through self-effort. The foregoing makes rural differentiation rather strongly active, while city differentiation is rather strongly passive.

5.7 Because differentiation at present is frequently at variance with people's customary value concepts, it arouses "anxieties." These anxieties are intensified because of the desire for high social mobility but a low actual mobility rate. Certain factors in the social system that are not in keeping with the development of a commodity economy such as the household registration system, the labor use system, and the personnel control system have become obstacles between people and the social position to which they aspire.

5.8 Yet another expression of these anxieties is the "sense of relative deprivation." This may originate in the members of society's relative lack of real position, or it may stem from group lack of fulfillment in all positions. For example, in economically developed areas, the cash income of the cadre group is relatively low; and the relatively high social prestige that the intellectual group enjoys is at variance with its low income. These are reasons that cause anxieties in these two groups.

Yet another source of anxiety is rivalry. This rivalry is frequently circular, meaning that a certain group may often compare its own "disadvantages" or "weaknesses" unfavorably with another group's "advantages" or "strengths." For example, individual entrepreneurs may envy the high social prestige of intellectuals, the authority of cadres, and the iron rice bowls of workers; intellectuals may envy individual entrepreneurs their high income, and cadres their authority and position; and cadres may envy entrepreneurs their high incomes, and so forth.

If social anxieties are not allayed, untoward behavior may result. Thus, better social regulation and social

control become an important matter that must be given serious attention and solved in the process of reform.

5.9 Changes in the social evaluation mechanism set the direction of people's social mobility. Occupations and units that formerly enjoyed relatively high social prestige have been replaced by other occupations and units. In some places, the ranking of college professors has regressed from the former first or second place to below 10th place. Because of differences in the economic resources and authority that each unit and department commands, some people may feel that enterprise units are superior to institutions, that departments in charge of economic functions are superior to administrative units, and that joint venture enterprises and civilian-run companies are superior to state-owned enterprises, and so on. These changes in evaluation concepts may lead to the relocation of people in new social patterns.

6. Differentiation and Integration

6.1 Social differentiation is an inevitable process in reform and opening to the outside world that cannot be reversed. In this process, the key is whether new structural factors will be "accepted" by the existing system and translated into further development. Therefore, constant differentiation accompanied by corresponding constant integration is the necessary condition for sustained harmonious development.

6.2 Differentiation and economic development. The barriers between organizations and regions lead to a decline in overall benefits as well as wasted money and resources, and they also lead to market-growth difficulties and resultant large-scale illegal trading. The greater independence or improvement in organizational (department) benefits and local benefits truly stirs all organizations' zeal for development of the commodity economy, but this zeal can help development of the socialist cause only so long as it does not damage the national interest, does not violate economic laws, and does not violate the principles of social justice, and the principles of economic benefit.

6.3 Justice and efficiency. A new choice that we face is between an equitable outcome or fairness at the outset (opportunity). The biggest sticking point in distribution mechanism reform lies in how to build new regulations that are fair in order to improve returns and stimulate zeal. In the current social differentiation, egalitarianism has yet to be eradicated. At the same time, the contributions of some high earners does not correspond to their income, while the low income of some high contributors is not consistent with the contributions they make either. The anxieties and rivalries that this arouses dampen the enthusiasm of the masses to a certain extent, weaken social cohesiveness, and create factors for potential instability. Thus, building of a fair distribution mechanism and regulations, and establishment of new justice concepts are new problems urgently in need of solution now.

6.4 Regional differentiation and regional integration. The barriers between regions and strengthened regional interests have led to the appearance of protectionist symptoms. This is a matter deserving of close attention in connection with future control of the overall situation. Building of a modern, integrated social structure requires the demolition of regional barriers, and there are two forces for demolishing these regional barriers. One is market forces. The formation and development of markets frequently plays a role in weakening or even eradicating regional barriers. In China today, however, the role that the market force can play is limited; therefore, the second force, namely the organizational network force, must be employed to form all sorts of lateral and vertical links. Since China's organization is distinctive in that it is an organization that usually has a hold on or controls social resources in many regards, use of these social resources to shape and develop organizational networks may be able to surmount regional barriers.

6.5 Social control and political stability.

a. Social differentiation draws all interest groups on to the political stage where many latent conflicts come out in the open. Since we have as yet no effective, complete coordination mechanism, some unfavorable factors have appeared, as follows: Individual or group goals and interests are becoming increasingly clear and made plain, while at the same time, overall social goals have become relatively diluted. Unless this contradiction can be promptly integrated, it is bound to have a bad influence on social stability and order.

b. Integration of state, collective, and individual mutual relationships requires attendant changes in social control methods. Take rural grassroots political power: Given the new interest patterns, peasants cannot completely continue to use the former undiversified administrative controls, but have to apply multiple forms of control, including economic control and laws, as well as the restraints of new ethical rules. In addition, the kinds of control must also be diversified. Each region has to select appropriate kinds of control that fit different modes of development and different stages of development, suiting general methods to specific circumstances. For example, strong administrative actions can also be adopted, support can also be drawn from the powerful collective economy, and economic levers can be used in association with legal restraints, etc. However, most fundamental is the need to adhere to the four basic principles, to do more in the building of socialist spiritual civilization, and to strengthen the political, ideological, and moral cohesiveness of the members of society. Only by adopting complete measures for improving the economic environment and rectifying the economic order will it be possible to strengthen overall results from social control.

Footnotes

1. Other members of the Problems Group are Comrades Yang Weimin [2799 0251 3046], Zhang Hua [1728

5478], Cheng Weimin [4453 3634 3046], Su Yang [5685 7122], Chen Yingying [7115 1305 1305], and Xiao Guoliang [5135 0948 0081].

2. For details, see NONGCUN JINRONG YANJIU [RURAL FINANCIAL RESEARCH], 1988, Issue 7, p. 16.

3. In 1987, the annual earnings of workers in foreign-funded enterprises and workers in enterprises under ownership of the whole people were 2,742 and 990 yuan, respectively. For details, see *Labor Wages Statistical Data, 1987*, Statistics Press, 1988.

4. In 1980, peasant per capita income in Zhejiang, Hubei, and Gansu Provinces was 219, 170, and 153 yuan, respectively. By 1987, peasant income in these three provinces, which are representative of east, central, and west China was 721, 467, and 296 yuan, respectively, the difference in income between Zhejiang and Gansu widening from 66 to 425 yuan. Source of data is the *Chinese Statistical Yearbook* for 1980 and 1988.

5. See *China Statistical Yearbook*, 1988.

6. See "Theoretical Reflections on Socialist Economic System Reform," JINGJI YANJIU [ECONOMIC RESEARCH], 1989, Issue 10.

7. Jiang Zemin: "Diligently Eradicate Social Injustices," QIUSHI, 1989, Issue 12.

8. In 1987, earnings of workers in wholly foreign-owned enterprises, and of workers in enterprises under ownership of the whole people were 2,744 and 990 yuan, respectively. See 1987 *Labor Wage Statistical Data*.

9. In 1985, taxi drivers earned between 500 and 1,000 yuan each month.

10. In 1988, peasant earnings in Shanghai, the highest place, and in Gansu Province, the lowest place, were 1,300 and 339 yuan, respectively. See *China Statistical Yearbook*, 1989.

11. See article titled, "Reexamination of Socialist Economic System Reform Theory," in JINGJI YANJIU [ECONOMIC RESEARCH], 1989, Issue 10.

Development of Fuel-Air Explosives

90CM0362A Beijing BINGQI ZHISHI [ORDNANCE KNOWLEDGE] in Chinese No 3, 15 May 90 pp 7-8

[Article by Xue Xingfu (5641 1630 4395): "Fuel-Air Explosives"]

[Text] On 21 April 1975, an astonishing event took place in the [?Xuanloc] region of Vietnam. Five U.S. C-130 aircraft dropped 120 bombs simultaneously. After they exploded, the Vietnamese troops suffered severe casualties. A lot of people were asphyxiated, and their final agony was too horrifying to behold. The event caused a great stir at that time among journalists, and conjecture was rife that the U.S. military had used some new type of antipersonnel explosives, which the journalists called oxygen-absorption weapons or asphyxiation bombs. This bomb was none other than the fuel-air explosive [FAE] bomb.

It is not regular TNT that is packed inside the FAE bomb, but either solid or liquid fuel. When the bomb has been launched or dropped in the air over the target, a special type of detonating device bursts the fuel container and throws extremely fine particles of fuel in all directions, creating a large gasified cloud of fuel. A second blast causes this cloud to explode, which in turn creates a super-compressed shock wave. The wave brings about great injury and destruction. This type of device in reality is an explosives system formed by mixing fuel and air together evenly at a certain ratio. It is therefore called a fuel-air explosive. This type of weapon system is called a fuel-air bomb. Because the fuel-air explosive consumes the oxygen within the cloud and produces large quantities of carbon monoxide when it explodes, it can cause the death of living organisms through asphyxiation or poisoning.

How is it that a mixture of regular fuel and air can explode, and can be turned into the explosive material for a weapon capable of causing tremendous injury and damage? To understand this question, we must first...

...Begin by Looking at Everyday Life

As everyone knows, fuels may be solid, liquid, or gas at room temperature. If you are careless with the canister of liquified gas that is in your home, the liquified gas could leak out and, if mixed with air at the right concentration, burn or explode when exposed to a spark. For this reason, an explosion of liquified gas is, in reality, a blast involving "gaseous fuel and air."

Terrible blasts have also occurred at industrial sites, such as large flour mills and coal mills, causing severe damage to equipment, and death and injury to personnel. This is because, when flour and coal are milled, large quantities of fine dust become suspended in the air. This dust will explode immediately if exposed to a spark when it has reached the right concentration. This could be called a "solid fuel-air" explosive.

Propylene oxide is a type of liquid. When its liquid droplets are diffused in the air and are exposed to a spark, they explode. This is a type of "liquid fuel-air" explosive.

From this it is apparent that fine particles of liquified gas, flour, coal, or propylene oxide are mixed with air, an explosion could occur. We know that the chemical makeup of explosives is precisely a mixture of flammable materials with an oxidizing agent. In our examples above, the fine particles of liquified gas and the other materials are the flammable materials, and the oxygen in the air is the oxidizing agent. When the two are evenly mixed and reach the right degree of concentration, they will explode if they are exposed to a spark or are heated up.

People have drawn on this lesson from everyday life to develop fuel-air explosives for military targets.

Fuel-Air Explosives

There is a broad, inexhaustible array of materials from which to make fuel-air explosives. There are five main sources, including: 1) Materials that do not require oxygen to decompose, such as ethylene oxide and propylene oxide; 2) Materials that can burn without the presence of oxygen or air, such as triethyl nitrate [4285 6808 0014 7927]; 3) Materials such as acetyl peroxide, which contain oxygen and react violently with a flammable material; 4) Materials such as diborane, which explode when exposed to humid air; and 5) Materials such as anhydrous dimethylhydrazine, which explode when exposed to oxygen. In addition, a similar reaction can take place with the compound formed by an even mixture of liquified gas and air.

The raw materials used to make fuel-air explosives have several special characteristics in common. Their boiling point is low, they sublimate easily, they are heavier than air, they are colorless, they are not easily detected, they flow freely, they mix with air easily, and they combine into flammable and explosive compounds. What is more fantastic, some fuels react in an especially violent manner with some metals, anhydrous metal oxides, and alkaline solutions. For this reason, if fuel-air explosives are used on the battlefield, it will make the enemy unsure of its chances of survival and render it impossible for them to defend themselves.

Fuel-air explosives can play an enormous role on the battlefield. Because they are more dense than air, they automatically flow toward low areas, such as trenches and dugouts, and destroy them. Because they are diffused over a large area, they can clear a minefield and provide a clear path for troops. More notably, fuel-air explosives kill and injure living organisms within a large radius. This is because they consume great amounts of oxygen when they explode, causing a severe oxygen shortage within a limited area. Also, the chemical reaction produces great quantities of carbon monoxide and carbon dioxide, which eventually asphyxiate people. If a cluster of 120 fuel-air bombs were dropped at equal

distances from each other all at once, the explosions would cover an area of 2.54 million square meters. When you calculate in the super-compressed shock wave that follows a blast, you see that the explosion affects 4.92 million square meters, which is equal to the force of a 1,000-ton nuclear device.

The best way to attack an enemy is to destroy his command center, his communications center, and his electronic warfare center so as to render him deaf and dumb. Also, one would want to destroy enemy transportation hubs and freight instruments, and cut off supply lines to make him hungry and isolated. Using fuel-air explosives will be the best way to deal with a surrounded enemy in the future. It is this special performance of fuel-air explosives which has gained them the favor of military authorities in various countries, so they have undergone...

...Rapid Development

At present, the United States, the Soviet Union, France, and China are all aggressively pushing forward with research on fuel-air explosives.

In 1960, the U.S. Navy carried out successful experiments with some fuel-air explosives they had developed. In 1966, they began to design a fuel-air explosive device, which was first used on the battlefield by the Marines. Beginning in 1967, Vietnam served as the testing ground for the fuel-air explosive devices of the U.S. Marines. They were first used for minesweeping, then in 1969 and 1970, the CBU-55 fuel-air cluster bomb was developed. Troop experiments were completed in 1971, and it went officially into service with the Marines. Research was begun on a second generation of fuel-air explosive devices which would be targeted against ships at sea. At the same time, the U.S. Air Force was unwilling to be left out in the cold, so beginning in 1967, it developed a 1134-kilogram (approximately 2,500 pounds) fuel-air delayed detonation bomb, the BIU-72 and BIU-76 bombs, and the HSF₁ and HSF₂ FAE bombs. In comparison, the U.S. Army has lagged behind in research on fuel-air explosive devices. It did not start research and development until 1972, and the focus was on using fuel-air explosive devices for minesweeping and to ward off enemy tank groups and armored vehicles. For this reason, the signs of fuel-air explosives were visible everywhere on the battlefields of Vietnam.

The Soviet Union also places a high priority on research into fuel-air explosives. It is reported that the Soviet Union began researching a second generation of fuel-air explosive systems in 1965, which would put them eight years ahead of the United States in this area. Thus, it can be assumed that the fuel-air explosive devices of the Soviet Union are not inferior to those of the United States in either variety or performance.

China began to research and develop fuel-air explosives in 1976 and has achieved successes in theoretical research and in application. A significant amount of experience has been accumulated.

Nothing is perfect. Fuel-air explosives also have their deficiencies. For example, in order to ensure the formation of the cloud, it is necessary that the fuel be diffused at a certain altitude and that the cloud be ignited at the right time, and this is relatively difficult to achieve. In addition, the time of day, topographical conditions, and weather all limit the use of fuel-air explosives. Even so, fuel-air explosives are a formidable member of the explosives family. Their appearance represents a significant upgrading of conventional weaponry, and they have done much to expand the field of explosives and increase the variety of explosives.

Second Artillery Prepares for Asian Games

90P30080A Beijing JIEFANGJUN BAO in Chinese
7 Jul 90 p 4

[Article by Zhang Xinan (1728 6007 0589) and He Jiangnan (0149 3068 0589): "Second Artillery Corps Actively Launches 'Welcome the Asian Games' Group Sports Activities"]

[Text] A Second Artillery unit, stationed in the arduous environment of a mountainous region, has actively launched "welcome the Asian Games" group sports activities, to the approval of the people.

Various Second Artillery leadership levels have, through planning and inspection, taken on the launching of "welcome the Asian Games" group sports activities as important work in both strengthening unity between officers and soldiers and improving the force's combat capability. Second Artillery leaders have taken the lead in participating in the sports activities and have promoted the opening of group sports at the grassroots levels. All units in the Second Artillery Corps have invested a total of more than 1 million yuan for new construction and renovation of 180 sports fields at subordinate units, for the purchase of 7,000 items of athletic equipment, and for the organization of more than 6,000 sports competitions at the battalion level and above. In addition to holding the traditional events of cross country, mountain climbing, basketball, volleyball, Ping-Pong, soccer, and so on, the corps also held ice skating, swimming, body building, bridge, and weiqi [a board game], among others. They further held a sports-knowledge contest and a question-and-answer contest on Asian Games knowledge. They trained more than 350 three-level and above judges and athletes, and these people became the initial formation of a backbone team for the group sports activities. The flourishing launching of the group sports activities has strengthened the physiques of the officers and the soldiers and has ensured the smooth completion of every task of the corps.

EAST REGION

Fujian Security, Law Officials Interviewed on Crime

*90CM0321B Fuzhou FUJIAN RIBAO in Chinese
17 Jul 90 p 1*

[Unattributed interview with Huang Songlu, Fujian Public Security Bureau; Chen Xinxiu, Fujian Supreme People's Court; Chen Mingshu, Fujian procurator general; Chen Zhenliang, Fujian Justice Department: "Into the 'Heavy Offensive'—Protect Stability"; 16 July]

[Text] The province at every governmental level has launched a "heavy offensive" against major crime. Yesterday, responsible officials of the Security Bureau, provincial Supreme Court, provincial Procuratorate General, and provincial Justice Department met with this reporter for an interview.

"Heavy Offensive" Meets With Success Even as the Attack Continues Be Organized

Huang Songlu [7806 2646 4389], Fujian Public Security Chief

[FUJIAN RIBAO] Will you please comment on the reasons for this "Heavy Offensive" and its principal targets.

[Huang Songlu] This comes about as a result of a formal joint request from the Central Committee and the State Council in accordance with the wishes of the people. It has great significance for protecting social stability and preservation of reforms and a smooth progress for building the economy.

The targets are criminal elements such as murderers, bomb terrorists, and those who commit robbery using firearms. Also included are "railway robber barons" who commit crimes on railroads and those who rob or steal private and public wealth; those who destroy or damage water supply facilities, electric power sources, railways, communications, and entrepreneurial facilities. Again, those who abduct and sell women and children, smuggle or engage in fraud and such economic crimes as speculation and create disorder in the market. Still others such as hoodlums who have carved out territories or those who move around committing crimes. Also included are habitual and recidivist criminals. All these are our targets.

[FUJIAN RIBAO] We had a concentrated attack before in this province. Will you please comment on that.

[Huang Songlu] We started the first one from the end of May to the beginning of June and had significant results, destroying 420 criminal groups and solving 2,420 cases, including 716 major crimes. We confiscated a batch of weapons and illicit funds and materiel with a total worth of 3.96 million yuan. A group of major criminals harmful to society fell into our hands. This initial show of our power blunted the force of the criminal.

[FUJIAN RIBAO] Will you please comment on what comes next and what must be done.

[Huang Songlu] Based on the first operation, we will organize subsequent assaults and coordinate or merge local and regional operations such as the railroad robbers, "yellow sweep," and "eradicate the six vices" into a major campaign. We are asking that all public security agencies in the province fight ceaselessly and throw themselves actively into the second phase of the "heavy offensive" and do their utmost to achieve even greater results. All agencies, organizations, schools, and enterprises, including street and village units must consider this a priority. Every case within each jurisdiction must be investigated, analyzed, and categorically passed on to the public security authority concerned and then continue to assist in the solution. The masses must expose the criminal without fear and participate in the fight as in the case of "when a rat crosses a street, everyone should attack it." Criminals should be exhorted to turn themselves in for lenient treatment. Those who defy the law to the end will be dealt with severely.

The Main Point Is To Preserve the Quality of Crime Fighting

Chief Judge Chen Xinxiu [7115 2450 4423], Fujian Supreme People's Court

[FUJIAN RIBAO] How will the courts at each level exercise its trial functions to the fullest?

[Chen Xinxiu] Since about May, we have severely punished major criminals who seriously harmed public security. As of 25 June, we had tried and closed 673 serious crime cases, sentencing 1,233 persons. There were 667 public trials of major crimes and 1,044 people were sentenced; 53.2 percent of these were sentenced to death, life imprisonment, or more than five years of imprisonment.

[FUJIAN RIBAO] How will the courts expedite cases during this "heavy offensive"?

[Chen Xinxiu] We coordinate with public security and the procurator general to select priority targets, meaning those that have aroused the greatest wrath of the people due to the seriousness of their offenses. Also, habitual, repeat offenders and criminal organizations receive special attention to be dealt with according to law. At the same time, we follow the principle of dealing with offenses fairly in accordance with law, "stabilizing, being permissive or being severe" according to the situation. We distinguish the guilty from the innocent and weigh the severity of the offense in order to preserve the high quality of justice and so that the handling of each case will stand the test of historical scrutiny.

Expedite Case-Handling by Importance—Differentiate Between the Illegal and Legal

Chen Mingshu [7115 2492 2873], Fujian procurator general

[FUJIAN RIBAO] How do you exercise the full functions of your office in this "heavy offensive"?

[Chen Mingshu] Since the launching of the attack, all my courts have been involved in the arrest, indictment, and court trial of cases in coordination with other agencies in lawfully trying a number of major criminals, destroying a group of major criminal organizations, and arresting fugitives and criminals who move around, thus closing a large number of cases. But this is just the opening salvo, as more difficult and serious cases are yet to come. Most recently, the provincial procuratorate notified all its branches to assert leadership, concentrate forces, organize well, and stay in close touch with their operating subordinates so as to hit hard in unison and in collaboration with agencies such as public security.

[FUJIAN RIBAO] What policies and programs will be used?

[Chen Mingshu] Measures must stress expeditious handling and be very discretionary concerning the relative gravity of the offense when deciding to arrest, try, or indict. A clear distinction must be made between what is legal and what is not. The principles of "leniency for those who admit their crimes and harsh treatment for those who remain defiant" and "balancing leniency with severity" must be maintained. There must be consolidated management, lessons must be learned, and recommendations tendered to subordinate agencies. They must be given help to plug leaks so no latent threat is left behind and care must be given to prevent and reduce future crimes. Who is in charge and who is responsible must be clearly defined. Those who are responsible and their superiors must be held accountable for the discharge of duties. Criminals who seek to retaliate or use violence against the action officers must be swiftly dealt with, and those exercising their lawful duties must be protected. The masses should be encouraged to become actively involved in the fight. Public security personnel performing their lawful functions must be protected.

Rehabilitate Criminals Through Strict Control and Enlightened Guidance

Chen Zhenliang [7115 2182 0081], chief of the provincial Justice Department

[FUJIAN RIBAO] Will you discuss the legal basis for the "heavy offensive"?

[Chen Zhenliang] Article 28 of our Constitution states clearly that "the nation preserves social order; it suppresses rebellion and other counterrevolutionary activities, restrains activities that endanger public security and the socialist economy, and suppresses any actions criminal in nature; it punishes and rehabilitates criminals." Concurrently, our country has set up a Criminal Code and a Law of Criminal Indictments. At the second meeting of the 6th Plenary Session of the National People's Congress a special "Resolution on Severe Punishment of Criminal Elements Who Constitute a Severe

Threat to Public Security" and a "Resolution on Determining Procedure for Speedy Trial and Punishment of Criminal Elements Who Are a Severe Threat to Public Security" were passed. These constitute the legal basis for our battle.

[FUJIAN RIBAO] It has always been national policy to have a mixture of punishment and reeducation of criminals. Let me ask you this, will those sentenced as a result of this "heavy offensive" be remade into new persons?

[Chen Zhenliang] All these years, we have developed special schools for reform through labor and labor education units to make people new, to educate them and nurture them. We have produced many who learned culture, technology, political science, and so on. Most have passed the required examinations and are qualified now to graduate and find jobs in their specialty. In 1989 alone, our province had 5,995 reformed people with certificates in culture and technology.

With respect to these people who were either reformed through labor or were labor educated, we mixed strict discipline with kind guidance. We promoted lawful, scientific and civilized management and control, and saved them through strict adherence to education and rehabilitation. The results have been gratifying and fully exemplify the socialist humanitarian spirit.

[FUJIAN RIBAO] May any accused in this offensive hire a lawyer?

[Chen Zhenliang] That right is constitutionally guaranteed. The people targeted by the offensive are no exception.

Fujian Stresses Enterprise Ideological Work

90CM0321A Fuzhou FUJIAN RIBAO in Chinese
18 Jul 90 pp 1, 3

[Unattributed article: "Remarks at the Opening of the All-Fujian Conference on Enterprise Ideological Work"]

[Text] Yesterday, the All-Province Conference on Enterprise Ideological Work was convened in Fuzhou under the auspices of the provincial party committee and the provincial government. The meeting is to disseminate guidelines conforming to the spirit of the Central Committee's line, give recognition to outstanding ideological work performed by agencies and individuals, exchange experiences and studies, strive to strengthen and improve activities at subordinate levels, generally promote entrepreneurial and social stability, enhance management, reform and opening up, and seek healthy economic buildup and development.

Provincial leaders such as Chen Guangyi [7115 0342 3015], Hu Hong [5170 1347], Cheng Xu [4453 1645], Yuan Qitong [5913 0796 1749], Lin Kaiqin [2651 7030 2953], He Shaochuan [0149 1421 1557], Wang Jianshuang [3769 1696 7175], Xiao Jian [5135 0256], Chen Mingyi [7115 2494 5030], Shi Xingmou [2457 1840 6180], and Ling Qing [0407 7230] all were present. Also

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there were representatives from the various labor unions and leaders in enterprise ideological work of municipal and other local agencies, leadership persons of the Communist Youth League, such local and other municipal officials responsible for such activities and organizations under direct provincial jurisdiction, and party secretaries and managers of 100 key enterprises. More than 500 persons attended.

The conference was chaired by He Shaochuan, member of the provincial party Standing Committee and chairman of the committee's Propaganda Department. On behalf of the committee and the provincial government, Vice provincial chairman Shi Xingmou read citations commending those outstanding enterprises and individuals who had notable performance in enterprise ideological work, and distributed awards.

Provincial committee secretary Chen Guangyi delivered the key address. Then deputy secretary Yuan Qitong focused his remarks on the following:

1. Ideological work is the lifeline of all economic activity. In the past year or so, the province has seen stages of management control and meaningful reforms take effect, opening up expanded and significant economic gains. But there are still some real problems in the effort to build the economy and hard tasks await. Some cadres and the masses have some ideological questions that need resolution. Particularly, some enterprises, for a variety of reasons, lack cohesion. Some workers and staff members are still passive and this affects production and efficiency. There are many roads leading toward solution, but basic is the need to resolve ideological questions and galvanize workers and the masses to be more active and creative. It would be futile to talk about anything if we leave this lifeline, we would not have healthy economic development, and our country might not have a stable overall position. Therefore, we must increase our understanding and appreciation of ideological work. We must realize that there can be no socialist economy without a firm, correct political course. We are a socialist country led by the Communist Party; what we are building is a uniquely Chinese socialism. Staying on a firm course is prerequisite to building a socialist economy.

Without ideological work, it would be difficult to exercise the working class's spirit of preeminence. Ten years of reform and opening up have shown to a large degree the fact that well-run enterprises have always emphasized a mix of two "civilizations," namely ideological and spiritual work. Those that were lax in these areas are either doing poorly or did not last very long.

The strong points of the party cannot be fully utilized without resolute, strong ideological work. In building a uniquely Chinese socialism, we are obliged to compete with capitalism on this same Earth while our productive capability and economic environment still lag behind. Under such circumstances, if we can build up our party well and be resolute in our ideological work, then

socialism will penetrate deeply into the hearts of the people and our economic power will grow and become ever stronger and finally surpass the capitalists. So, firm adherence to and exercise of the great tradition of party ideological work is a mission of the highest priority and urgency.

The missions of reform and opening up and management improvement cannot be completed without the massive power of ideological work. What must be done to overcome the difficulties we now face? Strategically, our country must regulate the various agencies, and party members, especially cadres, must be major role models. Also vital is effective and meticulous ideological work, educating the entire workers and staff to regard the nation's problems as their own, the prosperity of the people as their responsibility and, with a selfless spirit of suffering during the struggle, bringing about a rebirth through our own efforts and having the spirit of sacrifice for the sake of the nation by confronting hardship and adversity head on without being overwhelmed.

Without deeply penetrating ideological work, one cannot have a firmly confident battle position in the battle against "peaceful progression." As Comrade Jiang Zemin pointed to the Central Committee, what we face is a struggle against osmosis, subversion, and peaceful evolution. It concerns the long-range battle of survival for our country and our party. We should educate, unite, and rely on the working class and the four basic principles, not be intimidated by danger, and fight bravely on to push toward the establishment of a modernized socialism.

Without the party's ideological work, we cannot create an area for synthetic experimentation with reform. Fujian Province is such an area, so it must exercise all the advantages of policy, geographic conditions, and other internal factors to make effective reforms and expand the opening up process. We must clearly recognize that staying firmly on the course of opening up is not only an economic matter, but a basis for strengthening the quality of socialism and a political demonstration of superiority over capitalism. At the same time, expanding opening up continuously strengthens the cohesive power of our socialist homeland and completes requirements for a unified one. Some comrades at present do not see this and consider economics as only an economic question. As a result, enterprises, the "three-assets" type in particular, are weak in ideological work. As opening up expands, the "three-assets" enterprises of our province become more and more quantitatively prominent in comparison to other areas. We must pay special attention to the establishment of such enterprises and increase the party's ideological work.

2. The large number of workers and staff must be galvanized as a group to strengthen and improve enterprise ideological work.

The party machinery in enterprises must concentrate on getting themselves solidly established. They should set

up a strict and effective system of specific rules to guarantee the principles of democratic centralism. All party members in an enterprise, including the secretary, manager, and others, must perform their party duties earnestly, work for the party conscientiously, and accept supervision by the party structure and the masses.

Guidance given by the working class must be relied upon without reservation. Cadres at all levels must sincerely respect and protect the preeminence of the workers and staff and the masses so as to provide the best conditions for worker creativity. It is necessary to heighten the patriotic consciousness of the workers and staff, their love for their collective, and love of the enterprise in their area of endeavor. We must create a common, favorable climate for enterprise, push for mutual protection contracts, create good relations among the nation, enterprises, and workers and staff. We must require reciprocity between contractors and subcontractors in jointly signed pacts on benefits and protection. Workers and staff must be allowed to participate fully in government functions, and the relationship between the manager's authority and preeminence of the working class must be correctly arranged. We must perfect the management system and our understanding of it, resolving any inequities of distribution. Intellectuals must be regarded as part of the working class.

We must nurture the roots of the "four haves" for the sake of the work force. We must firmly have self-education, take advantage of the enlightened thoughts and experience of the masses to teach the masses. We must let the masses appreciate from their own experiences the significance of the four basic principles so as to heighten their pride in themselves. At the same time, we must actively disseminate guidance and theory to help them understand the idea of "one center, two basic points" and raise their self-conscious adherence to the party line.

We must attach great importance to the solving of ideological and actual problems of the workers. Leaders in enterprises and in ideological work must go deeply into the basic levels, to the masses, and be involved with difficult problems that most concern the masses, those that evoke the greatest amount of discussion and opinion, those that most excite them, and let the warmth of the party envelop these areas where problems are real and help solve them.

3. Increase leadership guidance realistically, work hard to open new areas for ideological work. We must continue to push forward with socialism's "two civilizations." Enterprise ideological work must be charged to open new fronts, strengthen new links, and provide leadership.

The core functions of the party structure in the enterprise must be fully exploited. There are three areas to consider: The first is to lead large numbers of workers and the masses to follow the party line, policies, and

guidance, and firmly put in its grasp the socialist direction of the enterprise; the second is to grasp firmly the dissemination of basic theory and systematic education, ceaselessly promote the ethical and scientific qualities of workers' thought so as to create a solid worker force of the "four haves"; and third, using economic construction as the core, motivate the party, the government, workers, and organizations to join in good ideological work, promoting the enterprises' production and management.

There must be an even healthier organization, stronger buildup of the work force. To strengthen the leadership for ideological work in the entire province, the provincial committee on a number of occasions conducted serious studies and decided to create a Fujian Province CPC Enterprise Committee. The provincial committee also decided to have the ideological work organizations in the various municipalities retain their current structure and increase activity. After the committee was set up officially, each municipality would set up a comparable one. It should give root to high-quality and competent cadres for ideological work. Those enterprises that are weak must quickly rejuvenate themselves. Irrespective of the size of the enterprise, each must have a special secretary; plant branches must also have a special secretary or a deputy. Cadres would be assigned at a ratio of one percent of the work force, but those with fewer than 300 workers would have a ratio of 1.5 percent, while those above 3,000 can be as low as one percent. Right now, plans should be drawn to assign groups of high-caliber, good-attitude workers to fill the ranks of the cadres.

From a policy standpoint, there should be an avoidance of uncertainty, such as a now tough, now soft approach. Studies by the provincial committee and the provincial government have determined that from now on, when reporting on grade-1 enterprises, the quality of their ideological work must be included. When reporting on grade-2 and provincial-class units, the quality of the ideological work must meet the conditions required for superior municipal ideological work. When considering increasing the grade or local standards, spiritual civilization and ideological work are considered as one item. In its evaluation, the government agency concerned must act in conjunction with its counterparts at the comparable party committee level. This should be consistent up and down the line so as to ensure equitable treatment. There must be equality in pay, awards, housing, distribution of goods, and so forth guaranteed through funding of cadres and officials of each department.

The scientific study of workers' ideological work must be stepped up. At present, as reform and opening up continue unabated and the international picture becomes ever more complex, many changes have already occurred in the structure of the work force. These offer new topics for ideological work. We must be realistic, deep-thinking, investigative, and ceaselessly study and seek to raise them to the highest degree of theory recognition.

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All those comrades in ideological work who are enthusiastic and ambitious should devote themselves to the science of ideological work that is building a uniquely Chinese form of socialism.

Imported Technology Aids Shandong Economy

*SK3108045890 Jinan Shandong Provincial Service
in Mandarin 2200 GMT 30 Aug 90*

[Text] Our province has unceasingly improved its economic and technological level by relying on imports to promote development. Our province brought in foreign funds, personnel, advanced technology, equipment, and managerial experiences through various forms to promote economic and technological progress. So far, the province as a whole has imported more than 1,700 foreign advanced technologies and facilities, transformed more than 1,000 outdated enterprises, and adopted more than 10,000 pieces of foreign advanced equipment and instruments. Technology import has enabled more than 500 major technologies and installations of enterprises to attain the international level of the 1970's and 1,400 to attain the international level of the 1980's. More than 1,500 varieties of major new products and some 310 products and technologies attained the foreign advanced level among all the similar technologies and products. The production of import substitutes has helped to save more than \$400 million in foreign exchange annually. So far, the import of technological projects has added an annual output value of more than 13 billion yuan and yielded an economic result of \$260 million. Technology import has promoted enterprises' technological progress and remarkably enhanced the quality of products. Forty-two industrial products of the province won gold or silver medal awards at the international appraisal, and 253 varieties of products won state gold or silver medal awards. A great number of brand-name and quality products that are in the lead domestically and are strongly competitive in the international markets have emerged. Opening to the outside world has enabled our province to greatly intensify its economic strength. At present, our province's overall economic balance has jumped from fourth place to second place in the whole country.

Shanghai's Jiaotong, Fudan Universities Improved

*OW3108120990 Beijing XINHUA in English
0627 GMT 31 Aug 90*

[Text] Shanghai, August 31 (XINHUA)—Over the past five years the state has spent 225 million yuan (about 50 million U.S. dollars) to improve Shanghai's Jiaotong and Fudan Universities.

The two universities are among the ten major universities the state decided to improve during the Seventh Five-Year Plan (1986-1990).

Some 35 million yuan was spent on the construction of a 120 ha [hectare] new campus at Shanghai Jiaotong University. New buildings with more than 170,000 sq m

of floor space have been built. The new campus is capable of accommodating 7,000 students, making the total number of the students at the university reach 13,000, twice the figure of five years ago.

With 120 million yuan of state investment, Fudan University has built buildings with a total floor space of 158,600 sq m. The university now has buildings with a total floor space of 500,000 sq m, capable of accommodating 10,000 students.

Besides, four major national laboratories, including ones for genetic engineering, applied surface physics and micro-electronics, have been built at Fudan University.

SOUTHWEST REGION

Tibet Commutes Sentences, Paroles Prisoners

*OW2808092190 Lhasa Tibet Television Network
in Mandarin 1200 GMT 27 Aug 90*

[From the "Tibet News" program]

[Text] On the morning of 25 August, in line with the principle of combining punishment with leniency and the policy of dealing with each case on its merits, the autonomous regional prison commuted the sentences of 22 prisoners for good behavior, released two on parole, and increased the sentence of one prisoner according to law. [Video begins with a close-up of a red streamer bearing Tibetan and Chinese characters, the latter reading "A Summing-Up for the First Half of 1990," hung on a two-story building facing a courtyard; camera pulls back to show a dozen or so people sitting at two rows of desks under the streamer, about half of them in uniform; seated on low wooden benches opposite the prison officers are rows of prisoners, totaling 400-500; seated at the right are two rows of female prisoners.]

In accordance with law, the prison commuted the sentences of those prisoners who had behaved well in prison, showed signs of genuine repentance, performed meritorious deeds, worked diligently, and underwent a change in their mental attitude.

In early July, prisoners (Dan Ba Ta Ji) and (Luo Sang Ba Deng), upon discovering a fire in the prison's supply room, immediately informed the appropriate personnel and the prison leadership, and helped to put out the fire. For this, both of their sentences were reduced by three and one-half years in accordance with the law.

At the 25 August summing-up meeting, the regional Higher People's Court, the Lhasa City Intermediate People's Court, and the Chengguan District People's Court read their rulings on reducing and increasing the sentences in accordance with law. [Video shows several prisoners standing in front of the desks and following the policemen's instructions to put their thumbprints on a white form.]

Yunnan Acts on Unhealthy Business Tendencies

*HK0309103890 Kunming Yunnan Provincial Service
in Mandarin 1000 GMT 31 Aug 90*

[Excerpts] The provincial people's government recently put forward a five-point proposal in order to carry out the instruction by the State Council on firmly checking unhealthy tendencies prevailing in different lines of business.

1. To study in depth and have a better understanding of the instruction. Comrades of all prefectures, autonomous prefectures, cities and counties should lose no time in conveying and studying the important speech by Premier Li Peng and comprehend in depth the importance of the struggle. [passage omitted]
2. To perfect systems while examining and stopping the unhealthy tendencies. [passage omitted]
3. To strengthen administrative supervision and prompt handling of violations of discipline and law. [passage omitted]
4. To work as one and conscientiously accept supervision from different social quarters. [passage omitted]
5. To strengthen leadership and take effective measures to fulfill the task. [passage omitted]

NORTHEAST REGION

Model Heilongjiang County Describes Methods

*90CM0178A Harbin FENDOU [STRUGGLE]
in Chinese No 4, 1 Apr 90 pp 26-27*

[Article by Ding Ke (0002 3784), secretary of the Tonghe County CPC Committee: "Strengthening the Party's Cohesive Power Is Fundamental to Success in All Work"]

[Text] In 1989, in the movement to build the two civilizations in Heilongjiang Province, Tonghe County was named an "advanced county in agricultural production," "advanced county in building civilized cities and towns," "advanced county in building civilized villages," and "advanced county in physical culture" and won a gold medal in the "Black Dragon Cup Contest." The county people's living standards were improved considerably. Per capita income in rural areas rose to 660 yuan. Per capita grain delivery to the state was among the highest in the province. Fairly good progress was also made in other fields of work. All this was the result of many years of joint effort by all the cadres and masses in the county. Summing up the work of the past few years, we have come to understand deeply that strengthening the party's cohesive power is fundamental to success in all work.

I. Strengthen party building and increase the party's cohesive power with its good image.

The party's own image is the foundation of its cohesive power. However, for a period of time, influenced by the erroneous ideological trend to make light of the party's leading role, some of our party organizations slackened their efforts to strengthen themselves. The failure of party members to play their roles became an increasingly serious problem, and the number of party members violating law and discipline was on the rise. The party's image was seriously damaged, and its prestige plummeted among the masses. We have come to understand that to improve our work in all fields, it is essential to improve the party's image and increase its cohesive power. For this reason, in our effort to build up the party, we have paid special attention to two tasks: to strengthen the leading bodies at all levels and to actively develop activities which are conducive to improving the quality of party members.

In order to strengthen the leading bodies at all levels, we have determined according to the actual conditions of the leading bodies at different levels on the major problems each must solve. First of all, leading bodies at the county level must strengthen their members' sense of responsibility to the party. Through study and democratic meetings, the county-level leading cadres were helped to strengthen their awareness of the five things they must do: to struggle for communism as long as they live; to be class-conscious as members of the party of the working class; to serve the people wholeheartedly as public servants; to foster the democratic spirit by taking part in party activities as ordinary party members; and to perform their official duties with honesty and diligence. With their sense of responsibility to the party strengthened, the county-level party-member cadres have all strived to set a good example for the masses, and good progress has been made in all fields of work in the county as a result. Next, emphasis was placed on solving the problem of "the party does not handle party affairs" in party committees at the basic level by establishing a "system of regular meetings of party committee secretaries." Each month, the county party committee calls the secretaries of basic-level party committees to a meeting to report and discuss specifically matters of party building. The meetings have played an important role in urging and supervising the basic-level party committees to strengthen themselves. The major problem to be solved in party branches at the grassroots level was their laxity and flabbiness. Pledges are made in writing by party members to their party branches to achieve specific goals. The system of "three meetings and one class" [large, medium-sized, and small meetings and party class] and the system of "party members maintaining ties to nonparty households" are firmly implemented. As a result, the role of grassroots party branches as fighting bastions is greatly strengthened.

Active participation in various activities is an effective way to improve the quality of party members and strengthen the party's own building. Proceeding from actual conditions, we often organize party members to take part in various kinds of activities to bring their role

as party members into play. The first is to organize systematic theoretical study activities. For organizations, enterprises, and institutions at the county seat, the first Saturday of each month is designated as study day, and classes are held in town and township party schools in rural areas during the winter slack season, for party members to systematically study basic Marxist theories, basic knowledge about the party, and the party's basic line and principles and policies in order to raise their political and ideological standards. The second is known as the four monthly activities. Each month, all the county's party and government organizations and some institutions report on the current situation and tasks, and party members and cadres are required to attend one class on basic Marxist theories, go to the grassroots level to conduct an investigation, and take part in one socialist voluntary labor activity. Last year, party-member cadres of organizations directly under the county contributed more than 20,000 man-days of work participating in the "Black Dragon Cup" voluntary labor contest, for which they were praised by the masses. The third is called "contribution to the four modernizations" activities. In each of the past three years, about 110 party members have been awarded first-, second-, or third-class citations for merit, more than 73 percent of the total number of people awarded. The fourth kind of activity is to help peasant party members fight poverty. In 1987, 10 percent of the county's peasant party members still lived in poverty, and it was hard for them to play an exemplary vanguard role in the new situation of a developing commodity economy. To solve this problem, we made plans in 1988 for party organizations at the county, township, and village levels and leading party-member cadres to help the poor peasant party members rid themselves of poverty. Funds were raised and loaned to them at low or no interest, and technological, managerial, and operational guidance was provided to help them get out of poverty and become leaders in raising agricultural production and getting rich as quickly as possible. With the strengthening of party building, the exemplary vanguard role of party members is also brought into full play. More than 100 party members were commended or rewarded by the provincial, prefectural, and county party committees in each of the past few years. Last year, for a variety of reasons, the departments concerned estimated that grain procurement would be more difficult than in any year before. But, with the county's more than 2,000 peasant party members in the lead, the procurement tasks were fulfilled ahead of schedule in less than a month's time.

II. Insist on building the two civilizations simultaneously and increase the party's cohesive power with real achievements in the process.

To achieve real success in building the two civilizations, we must adhere to the principle of building the two simultaneously. In the past, however, we often failed to properly handle the relationship between the two, putting undue stress on one and neglecting the other, making coordinated development all but impossible.

From practice we have come to understand that to build the two civilizations simultaneously, we must grasp the link between them. This link is the development of the productive forces. We have since paid close attention to developing the productive forces and made continuous progress in building the two civilizations. 1) It is necessary to grasp the key link, which is to improve the quality of man. Man is the most active factor among the productive forces. Improving the quality of man is not only the focus and objective for building the spiritual civilization, but also the premise and motive force for building the material civilization. It is the key to building and developing the two civilizations. In order to enhance the political quality of all the county's people, we conducted ideological education tailored to the different needs of different groups of people. Among cadres of party and government organizations, we conducted education on "serving the people"; in enterprises, education on the correct handling of the relationship between contractors and workers and staff members, the relationship between profitsharing and expanding reproduction, and the relationship between the interests of the enterprises and their responsibility to society; in the service trades, education on professional ethics; in the rural areas, education on "changing prevailing habits and customs"; and in schools, education on "learning from Lei Feng and fostering a new spirit." In addition to direct inculcation, we also combined education with enjoyment in the form of many activities loved by the masses, with good results. We also raised the masses' scientific and cultural level through such activities as the "science and technology winter," "night schools for peasants," "technical job training for enterprise workers and staff members," and so forth. Now, the number of illiterates in the county has dwindled to just over 2,600; each peasant household has mastered several new production techniques; and the scientific and cultural level of enterprise workers and staff members has been raised to a suitable degree. The enhancement of the basic quality of all the people in the county has not only guaranteed the successful progress of our work in all fields in the past few years, but also laid the foundation for the future take-off of Tonghe's economy. 2) It is necessary to ensure fulfillment of specific economic goals through ideological and political work. The party's basic line dictates that the whole party must focus its work on economic development. The setting and realization of specific near-term economic goals are actual steps toward the realization of the common and highest ideals. Therefore, we called on party organizations at all levels to set their near-term fighting goals around the central task, which is economic work. The county party committee put forward the economic strategy of "strengthening agriculture and promoting industry," and the various party committees and grassroots party branches also appropriately formulated their own work plans. We then relied on forceful ideological and political work to guarantee the correct orientation of economic work and the realization of the economic goals. In view of the tendencies to engage in shortsighted activities, "put money above everything else," and so forth, which had

emerged in the past few years, we actively conducted ideological and political work, popularized the typical experiences of the county pulp mill, Zhenjiao Township, and Chengxiang Village, and made it clear that the four cardinal principle must be upheld in the course of reform and opening to the outside world and that economic development cannot deviate from the socialist orientation. Persistence in constant ideological and political education has enabled our county to develop a good "microclimate" and guaranteed the county's stability and economic development. 3) To encourage people to work hard and make progress, we implemented a system of "horizontal competition." Tonghe had always been a small, backward county. To put an end to backwardness, the people of Tonghe must have a "scientific, realistic, progressive, hard-working, and competitive" spirit. In order to encourage the people to work hard and make progress, we implemented a system of "horizontal competition" or "horizontal comparison." Departments and units that ranked first, second, or third in work in comparison with others in the same trades in the entire prefecture or province were given handsome rewards and wide publicity. Units lagging behind were given prompt warnings, and if they failed to improve in two years, their principal leading members would be demoted. Thus a control and driving mechanism was formed, stimulating people to aim high and strive to be the best. As a result, more than 70 percent of the units have changed their status from backward units into advanced units of the entire prefecture, and some have even joined the ranks of advanced units of the entire province.

By grasping the link of developing the productive forces, the county has achieved outstanding results in building the two civilizations, giving hope to the people and strengthening their faith in the party.

III. Enhance the party's cohesive power by changing its work style and maintaining close ties to the masses.

Maintaining close ties to the masses is our party's glorious tradition and the premise of its cohesive power. If we alienate ourselves from the masses, we will accomplish nothing. This was true during the war years, and even more so after we came to power and began to engage in construction. In the past few years we have awakened to the fact that the bureaucratic ways and even corruption of some party cadres are causing strong resentment among the masses, and we have directed our attention to carrying forward the tradition of maintaining close ties to the masses and guaranteeing it with rules and regulations. 1) Consult the masses when problems arise. In the past, we antagonized the masses because we placed too much emphasis on handling problems by administrative and economic means. To change this situation, we followed the principle of "keeping the masses informed of important matters and discussing major problems with them," respected the masses, and consulted the masses when problems arose. When purchasing grain last year, the county party committee, drawing lessons from past experience, turned the grain purchase teams into agricultural support teams, which went to peasant families to help

them take care of production and daily living, helped them solve practical problems, and humbly solicited their opinions. As a result, the "three procurement" tasks, which had always been difficult, were carried out very smoothly. Many cadres said with deep feeling, "Go among the masses, consult them when problems arise, and there is no problem that cannot be solved." 2) Firmly protect the interests of the masses. Our party is to serve the people wholeheartedly. Therefore, in actual work we must always protect the interests of the masses and give expression to the party's purpose. For this reason, the county's leading bodies have often discussed and solved some major problems in protecting the interests of the people, and paid attention to bringing into play the examining and supervisory role of the county people's congress and the county CPPCC [Chinese People's Political Consultative Conference] Committee in this regard. When a deputy to the county People's Congress reported that a few persons were trying to dominate the rural trading market, prompt action was taken by the department concerned to have the scoundrels punished. The masses were very pleased and volunteered to help manage the market. During last year's grain procurement period, peasants were robbed repeatedly of the money they received from selling grain to the state. Under instruction by the county party committee and county government, the department concerned cracked the cases quickly, and the criminals were punished severely according to law. The masses clapped and cheered. Such efforts to protect the interests of the masses have further inspired the peasants' patriotism and enthusiasm to sell grain to the state. 3) Be concerned about the weal and woe of the masses and do more solid work for them. Generally speaking, the masses are practical, but reasonable. So long as we think what the masses are thinking, strive to meet their needs, and work untiringly for them in practical ways, we will naturally win their support. To encourage cadres to do more practical work for the masses, we have made it a part of cadre performance evaluations, and it has been very effective. Tonghe is a small county with poor medical and health services. When leading cadres are unwell, they can go to the provincial capital by car to get medical care in the big hospitals, but the masses cannot do the same. In order to solve the masses' medical problems, the county raised funds to build an inpatient facility with fairly advanced medical equipment, and 11 specialists and professors from big hospitals in Harbin City have been brought over to treat patients, give lectures, and train local doctors. Many difficult and complicated medical problems can now be treated locally for the convenience of the masses. In addition, the county has also raised funds for 10 practical projects including construction of a central heating facility, installation of running water, school improvement, paving of city roads, and construction of a rural trading market meeting state standards. The county party committee and party committees at various other levels are always concerned about peasants suffering from natural disasters and workers and staff members of failing enterprises and try in every possible way to solve their problems promptly.

Practice has shown that only by strengthening the party's cohesive power will it be possible to rally the masses around the party organizations, overcome all difficulties, and push the socialist cause forward constantly.

Editorial Concerns Over Stock Market Plunge
90CE0311A Taipei CHING-CHI JIH-PAO in Chinese
2 Jul 90 p 2

[Unattributed Editorial: "Perfecting the Stock Market"]

[Text] Because of the consecutive downward plunge of the stock market index, which currently has already fallen approximately 5,000 points, panic has occurred among stock holders, and one after another they are demanding that the government take measures to save the stock market. Premier Hau [6787] of the Executive Yuan initially indicated that nothing could be done to save the stock market except to perfect it. In the past few days it appears that he has been under pressure from all sides and, as a result, on the 30th of last month he promoted a four-point plan to save the stock market. What will be the effects? We will have to wait and see what is going to happen.

Why was there a dramatic decline in the stock market index? Can the situation be saved? Should it be saved? How can it be saved? How can the stock market be perfected? All these questions concern not only stock market investors, but also outsiders, for it is not only a question of affecting the interests of investors, but the entire economy as well. When we speak of saving, we in fact refer not only to saving the stock market, but also to saving the entire financial situation. When we speak of perfecting, we refer not only to perfecting the stock market, but also to perfecting the entire economy.

The reason behind the current stock market plunge remained latent for a long time while the stock market was soaring. We know that the stock market is comparable to a completely competitive market, because the number of buyers and sellers is extremely large. Currently the total number of buyers and sellers in our country is said to be close to 4 million. The nature of the things traded is similar, and there is no difference between the nature of stocks issued by stock companies. Market information is very flexible. It is thus very convenient for both buyers and sellers to enter or exit the market. In principle, it is impossible for a few people to totally manipulate the market. Although the so-called big investors or main force may influence the market in many ways for a short period, they can in no way manipulate the market for a long period as an oligopoly does. Because of the stock market's quality of perfect competition, the stock market price index is entirely determined by the law of supply and demand. At the same time, the stock market is also subject to speculation, because securities can be traded easily. Suppose large amounts of capital flow into the stock market for speculative purposes and for a time securities or stocks are in short supply: the stock price index would continuously rise. Unfortunately, our stock market falls into this category. Since 1986, society's target for speculation has shifted to the stock market, and capital has poured into the stock market in great amounts, stimulating the stock market price index to soar. The great increase in

the stock market price index encouraged further speculation and drew even more capital into the stock market. The result was a whirlwind period when the stock market erupted. The stock market price index topped 12,000 points, and the volume of daily trading reached 200 billion New Taiwan dollars. This could indeed be called the golden age of the stock market.

Although the short-term stock price is determined by the relationship between supply and demand, the long-term price is determined by the stock's profitability, that is, how many dividends each stock can earn annually and the increase in the asset value of the issuing company. Also, the short-term price of stocks cannot deviate excessively from the long-term price, which is why the price of stocks cannot increase endlessly. Once the price rises to an unreasonable level, investor confidence will waver, and opposite expectations will appear. Investors will worry about a decline in price, and consequently there will be more sales of stocks; supply will exceed demand, and the price will begin to fall. Once they fall, the expectation that they will fall will be intensified psychologically. Once this happens, it may not be able to cleared up, which is exactly what the current situation is like.

Investors will not listen to such simple logic when the stock market is very active. In the past we have repeatedly cautioned investors to be cool and calm, but not only have we received no positive responses, instead we are constantly censured, accused of ignorance about the stock market, and are the targets of sarcastic remarks. The government agency in charge also intended to take steps to bring the stock market back to normal, but it has been criticized for intentionally forcing prices down, and has encountered constant protests. As the present situation changes, the investors' situation is unstable, and they are calling on the government to save the stock market.

Can the stock market be saved? Should it be saved? In our opinion, it is up to the person who tied the knots to untie them. Only the investors themselves are able to save the stock market. If all investors became long-term stock holders instead of taking short-cuts, and did not sell stocks in such a hasty manner, stock prices could stabilize. However, if investors vie with each other for stock sales on the one hand, and appeal to the government to save the stock market on the other, we're afraid the government will be incapable of action. Yet does this mean that the government should take a laissez-faire attitude? This is also incorrect.

For the moment, apart from being concerned about investors, the government should pay attention to the harm to the entire financial situation caused by the drop in the stock market. If by chance the government handles the problem improperly, it could lead to a further financial crisis. For instance, those financial organizations which surreptitiously engage in the business of buying on margin [ping chung 0014 4429] may very possibly have been caught up in the situation by now,

causing sluggish fund circulation. Some stock companies may be in danger of going out of business because of declining business, causing concerns that their employees may lose their jobs. Small investors may go heavily into debt because of unsustainable losses. All these may seriously affect the stability of the financial situation. Based on the above considerations, we believe that the government agencies in charge should take necessary measures and raise them at the right time in order to prevent financial conditions from growing worse. In addition, what direction will the large amount of capital which is flowing out of the stock market take in the future? It should be even more closely watched in order to prevent it from creating waves elsewhere.

Of course the fundamental way to rectify the stock market is still to save it by developing and perfecting it. In this respect, we would like to make several suggestions. First, increase stock market chips. Presently less than 200 companies have their stocks on the market. Since there are many large and medium-size enterprises in this country, quite a few could put their stocks on the stock market. Because of various considerations or because of their conservative mentalities, many have been reluctant to enter the market. From now on, agencies in charge should use either rewards or compulsory measures to promote enterprises' entry into the market. If there are sufficient chips in the stock market, in the short-term there could not be an irrational drastic increase or decrease in prices. Second, expand the market for government bonds. Although bond trading is carried out withinin the stock market, current government bond trading is insignificant and the transactions are largely ignored, and thus the stock market has no way to give free rein to its function. With limited bond trading, because the issue of surplus bonds is limited, there is no way to attract the interest of investors. We therefore suggest that the Ministry of Finance consider the financial aspects and increase the issue of public construction bonds or public annuity bonds which can be traded. This will increase the government's operational tools in the open market and create more space for utilizing currency policies. Third, strengthen management of the stock market. Strictly ban illegal trading, under-the-counter transactions, malicious conspiracies to manipulate the market, and sales of stocks at a marked price. The Security and Exchange Commission should be granted the right to conduct investigations and searches, so that it may truly utilize its function in managing the stock market.

Financial Policymakers Urged To Consider International Factors

90CE0383A Taipei CHING-CHI JIH-PAO in Chinese
17 Jul 90 p 2

[Editorial: "The Application of Financial Policies Should Take Full Account of Changes in International Factors"]

[Text] A few days ago, Allan Greenspan, chairman of the U.S. Federal Reserve Board of Governors, declared before the Senate Finance Committee that, if the tight U.S. credit situation endangers economic growth, the Federal Reserve Board will consider taking measures to relax credit. These remarks immediately caused a dramatic rise in New York stock market prices, an abrupt rise in the U.S. dollar exchange rate, and a strong reversal in international gold prices. Under these circumstances, there is widespread concern whether we should follow suit by adopting more relaxed financial measures with respect to the policy of financial retrenchment that Taiwan's Central Bank has now been implementing for a period of time. We are of the opinion that this "concern" greatly deserves our attention since the application of financial policies should consider both domestic as well as international factors.

In the past, because the level of Taiwan's economic development was relatively low, the influence of international finance on the domestic financial situation was fairly slight. Consequently, the majority of financial policies were primarily based on domestic factors. However, in the past several years, Taiwan's economic development has experienced more and more growth. The proportion of its domestic production going into foreign trade has risen with each succeeding year. Not only has the domestic economy been deeply affected by international factors, changes in the international financial situation more often than before are causing violent fluctuations in the domestic financial situation. For example, in the past several years, this has been exemplified by the increased value of the new Taiwan dollar [NT] and the large amount of overheated money flowing in and out. Given this situation, the influence of financial policies assume an even greater importance, and when applying them, we should definitely give consideration to examining both domestic and international financial factors.

Nevertheless, the actual application of financial policies in the past few years has still stressed the weighing of domestic factors and slighted international factors. Thus, when there were large increases in the value of major currencies against the U.S. dollar, the value of NT was only raised slowly against the U.S. dollar exchange rate, with the result that, except for the U.S. dollar, those currencies rose in value. When the U.S. dollar strengthened its value against major world currencies, the NT exchange rate against the U.S. dollar was lowered only insignificantly or not at all. Sometimes it was even increased in value, becoming a superpower currency. Excessive intervention such as this with NT exchange rates distorts Taiwan's foreign trade and economic activity and causes major economic difficulties, such as Sino-U.S. trade frictions, capital overflows, stock market and real estate turmoil, and large amounts of overheated money flowing in and out. This has been the result of the Central Bank paying too much attention to domestic factors and losing sight of international factors with respect to its policies on exchange rates.

Given the present situation, the Central Bank needs to pay even more attention to changes in international factors when formulating its financial policies. Because it has recently further relaxed restrictions on the flow of funds—with, for example, inward remittances being increased from \$1-2 million per year per person and the limit on the amount of NT that each person can carry in and out of the country being increased from NT8,000-40,000, the movement of domestic and foreign funds will tend to be easier, there will be a much greater tendency for the disparity in domestic and foreign interest rates as well as changes in NT exchange rates to affect the movement of domestic and foreign funds. As a result, in adjusting interest rates, the Central Bank will have to pay close attention to changes in the international interest rates. Similarly, the application of exchange rate policies also must weigh the changes in the exchange rates of major currencies. In fact, the disparity between domestic and foreign interest rates and the changes in NT exchange rates are mutually affected, being the cause and effect of each other. Consequently, the application of interest rate policies and exchange rate policies have to be properly coordinated and adjusted before they can be optimally effective. This is especially important in dealing with the current outflow of funds.

Whether the NT exchange rate should raised or lowered and whether credit should be relaxed are two major problems now confronting financial policymakers. With respect to the NT exchange rate, there has recently been pressure for an NT devaluation because of the strength of the U.S. dollar and its increased value against major currencies, and also because of the large increase in the outflow of Taiwan capital. The Central Bank has forcefully intervened to maintain the stability of the NT exchange rate. As for the supply of funds, the bank has, under its policy of curtailing credit, "opened a small hole" by instituting measures of moderate relaxation, thereby avoiding the harmful effects of excessive retrenchment. Some people support this, and others oppose it. We generally approve of how the Central Bank takes domestic factors into consideration. However, if we take into account the international factors that it should have considered, then we think its maintenance of the NT exchange rate has been too rigid. For example, a few days ago a certain well-known U.S. economic institution called for another 10 percent hike in the value of the NT. This proposal certainly was not accepted by our country. However, if we can take advantage of the situation to greatly devalue the NT, then we will have a large space for upward evaluation.

In short, a developed economy makes financial policy-making a more serious task. However, as the development processes become larger, the application of financial policies will be felt to be more difficult and greater attention will have to be given to using flexible methods to control credit. In addition to weighing domestic factors, the operation of flexible credit controls requires the weighing of international factors even more. As the development processes grow, the weighing of international factors will tend to become more important.

Having in the past stressed the weighing of domestic factors in making financial policy, it is not easy for Taiwan to respond to recent economic and financial circumstances. We fervently hope that our financial authorities can do some soul-searching and strive to improve.

Editorial Call for Emergency Measures To Salvage Stock Market

*90CE0384A Taipei CHING CHI JIH PAO in Chinese
18 Jul 90 p 2*

[Editorial: "The Stock Market Rescue Must Be Made Immediately and Be Immediately Effective"]

[Text] For the last few days, the securities business has repeatedly been in trouble and the stock market in turmoil. The nose dive from above 12,000 points to 5,000 points taken in a short time by the weighted stock price index has demoralized people, and the securities business mess is only the tip of the iceberg. If the storm is to be prevented from spreading, the government will presumably have to take effective measures.

In advanced countries, when a drop in stock prices on the stock markets exceeds 30 percent, the governments normally take measures to show their concern. Perhaps because the prices on the Taiwan stock market rose dramatically for the past two years, the sudden drop within a short time can be ignored. However, the extent of the decline has reached 60 or 70 percent, and the government is still standing idly by. This is causing people to feel especially insecure. Fortunately, top government leaders have publicly declared that 5,000-7,000 points are a sound level, and they have begun to take measures to stabilize the market. This at least has the effect of making known the government's concern. Unfortunately, the measures it has taken are weak and unlikely to bring stability.

Today, the securities business is constantly in trouble, and as this state of affairs expands, it is affecting market stability. This places those in charge of doing the investigations and making the arrests in an awkward dilemma. In fact, the impartial rules of the game for the stock market must be maintained. Given its present poor health we cannot neglect a clean-up. However, we must, at the appropriate time, accompany this action with effective measures of encouragement which will give the investing public confidence that sweeping away illegalities is intended to preserve the soundness of the market and that it is not an attack on price quotations. However, measures of encouragement must be taken immediately and must be immediately effective. We cannot engage in idle theorizing. We should like to make the following recommendations:

1. The rumor that pursuing the investigation harms the market. Most of the recent stock market fluctuations have come from misleading rumors. If the government cannot effectively investigate and deal with these slanderous rumors, the trouble makers will go free and the

weakened market will never settle down. As for tracing these rumors to their source and the rather difficult task of obtaining evidence, we will have to see whether the government has the determination to carry them out. They could begin with the blank name lists and even go on to the leaflets of the investment clubs. These all present opportunities for finding someone to punish as an example to others. If those in charge took some concrete action, at least the rumor mongers would be warned they had better lie low.

2. The probes should be carried out in blitzkrieg fashion. It is not necessary for the securities exchange and the securities control commission to evade the recent problems which have so frequently afflicted the securities business. They should instead face up to reality and quickly concentrate all their forces on carrying out their investigations. They should as soon as possible present a full account to the investing public. Letting them fully understand the actions being taken certainly does not present any problems for securities exchange and the securities control commission. It can prove their innocence. They have no need to panic. Of course if the investigation drags on for a long time, it will be hard to avoid suspicion. We have to act fast and decisively if we are to stabilize the market.

3. Setting up a fund to stabilize the stock market. Many government leaders, including the finance minister, have publicly declared that money can now be earned by buying high-quality stocks. However, they still have not been able to inspire buying activity. Some people think we should increase the amount of investment by corporations. In fact, the investment stocks of many corporations are short-term turnovers. Consequently, what we should do from now on is think of ways to maintain the number of stockholders. The publicity of arranging for a fund to stabilize the market would reassure stockholders. Money for the stock market stabilizing fund could be raised from the Executive Yuan's development fund and from its retirement fund, as well as from taxes on securities transactions and service charges on securities transactions which could be provided in installments. A goal of NT5 billion would probably be enough to bring stability to the market. As long as investment values which have suffered losses can be purchased and investment values which have increased can later be disposed of, the fund will restrict market fluctuations.

4. Permit foreign investment in the stock market. This is one of the measures for stability recently announced by the Finance Ministry. Actually, it has been a watchword of the government for more than 10 years now. Of course, the influx of foreign investment into the stock market could stir up trouble. Nevertheless, after the nonstop expansion of the stock market, the possibility of it being manipulated is relatively slight. Now, just as the New Taiwan dollar is under pressure to be devaluated, is the right time to bring in foreign investment into the stock market. This could have the simultaneous effect of stabilizing the financial situation as well. This action

could be taken immediately. However, we hope that it would not again become an empty slogan.

5. Adjust the taxation policies on securities transactions. In order to restrain the stock market, the government in the past two years first reinstated taxation on securities income and later greatly increased the securities transaction tax. The present situation is much changed. Leaders at the various levels admit that we have now restored investment value and that the past policies need to be adjusted by considering either a reduction in the securities transaction tax rate or adopting a flexible tax rate. Both are worth studying. Some criticize a flexible tax rate as unfeasible, saying that a flexible adjustment of the rate has for a long time been built into the financing of stock investments and that this is not inappropriate. It can be seen that a flexible tax rate is not at all out of the question.

The agitation of the stock market has lasted quite some time now. If it drags on too long, it will lead to ever increasing harm. The above list represents measures that are immediately feasible and that would be immediately effective. In view of the lack of any clear evidence that the stability measures announced a few days ago will be effective, the government should consider speedy action that will achieve the desired results.

In addition, policies also need to be properly adjusted to cope with sudden turns in the Taiwan stock market. In the past, because the size of the stock market was quite small, all that was needed was a decision to encourage market participation and the development of the securities business. Today, supply and demand are completely reversed. If we stick to the old policies, they obviously will be incompatible. Consequently, properly restricting market participation and capital increases should be considered. Although it has not been announced that newly established securities businesses are closing, we should re-evaluate the qualifications for their getting started. We should not allow the rich to open up shop whenever they want, and we should thoroughly investigate those who start up new banks and check up on their source of capital. We should provide guidance to those presently existing establishments that are having trouble, including capital increases for specified times to strengthen them. These are long-term stratagems for beefing up the stock market.

Editorial Suggests Ways To Handle Trade Deficit With Japan

90CE0427A Taipei CHUNG-YANG JIH-PAO
in Chinese 30 Jul 90 p 3

[Editorial: "Fundamental Way To Solve the Problem of the Trade Deficit With Japan"]

[Text] Japan is Taiwan's second largest trading partner, the country of origin of most of our imports, and only second after the United States as destination for our exports. Last year, the value of Taiwan's imports from Japan amounted to \$16.02 billion, and the value of

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Taiwan's exports to Japan was \$9.06 billion. Although the total value of bilateral trade is large, for the last 30-odd years Taiwan has always had a negative trade balance, with the exception of 1952 when Taiwan had a surplus of \$2 million, and the trade deficit has been growing larger year by year. The year before last, it had been \$6.06 billion, last year it rose to \$8.96 billion, and during the first half of this year it has already reached \$3.71 billion. It is precisely because of Taiwan's huge trade deficit with Japan and its year by year increases that it has become for many years a problem that the government and the people feel very concerned about and for which a thorough solution has been sought for a long time.

What are the reasons for Taiwan incurring such deficits in its trade with Japan over all these years? There are economic as well as factors other than economic involved. Among the economic factors, the main one is a certain reliance by Taiwan on Japan, engendered by the different economic structures in the two countries. Because Japan's technology is more advanced than Taiwan's, Taiwan imports from Japan most of its needed industrial raw materials and production equipment. After processing in Taiwan, these materials will again be exported from Taiwan in the form of finished industrial products. As Taiwan's exports grow at a rapid rate, so will requirements of imports from Japan increase. However, items that Taiwan can export to Japan are mostly agricultural products and products of animal husbandry, as well as processed agricultural products, while it is very difficult for general industrial products to penetrate the Japanese market. It is for this reason that the growth rate of exports to Japan all along lags behind the growth rate of imports from Japan, with the result that the trade deficit grows larger with every passing year. In recent years, foodstuffs and cigarettes produced in Japan are also being imported in large quantities, and looking at the supermarket shelves we see that they are full of biscuits, candies, canned goods, even coffee and powder milk produced in Japan. All this tends to aggravate the trade deficit with Japan.

Moreover, the proximity of Japan to Taiwan makes for cheaper shipping expenses. Japan is very good in post-sale servicing of Japanese production equipment, and Japanese exporters often grant Taiwan importers short-term credits at favorable conditions. All these are factors that induce Taiwanese to import from Japan at an ever-increasing rate.

Among the noneconomic factors, what is involved here are many political, ethnic, quarantine, and trade administrative factors. An ethnic characteristic of the Japanese is their persistent conservatism, and their inclination to prefer the use of domestic products. Apart from agricultural products, foreign industrial products will hardly be able to penetrate the Japanese domestic market. The Japanese Government will also take quarantine and security reasons as pretext—setting high standards in this respect—to prevent the importation of foreign products. In addition, Japanese domestic marketing channels

are organized in a peculiar way, closing the door to the entry of foreign products. As of concern for Taiwan is also the fact that since Japan broke off diplomatic relations with Taiwan and recognized the PRC, the Japanese have come to regard the mainland market as one of limitless potential for Japan, and in order to curry favor with Communist China, they gradually discriminate against Taiwan, and purchase from Communist China agricultural products and processed agricultural products which they had formerly imported from Taiwan. This display of snobbery practiced by Japan in its political conduct is also one of the main reasons for Taiwan's rapidly increasing trade deficit with Japan.

This year, in an effort on the part of Taiwan to solve the problem of the trade deficit with Japan, Chen Lu'an [7115 1462 1344], a former minister of economic affairs, had intended to visit Japan for negotiations, but was rebuffed by the Japanese side. This lack of sincerity has aroused much dissatisfaction in Taiwan and has also been condemned in Taiwan's public media. The Taiwan government too is considering taking measures to force Japan to recognize the importance of the problem. Placed under this pressure, the Japanese side has promised to organize a purchasing mission to Taiwan for stepped-up purchases, but in respect of various critical questions and taking effective measures, they have shown little inclination to provide solutions. Although we believe that organizing purchasing missions can increase Taiwan's exports, such measures cannot fundamentally resolve the problem of Taiwan's trade deficit with Japan.

Since the trade deficit with Japan is a problem between the two countries and a problem that has existed throughout a protracted period of development, it requires for its fundamental solution not only that both countries make a joint effort, but also that it be given long-range considerations and that an overall plan be mapped out. For this reason we are making the following proposals, which may serve the two governments as reference:

First of all, Japan must thoroughly abandon its selfish, overbearing, and snobbish attitude, and must truly and sincerely seek a way to resolve the problem. Although Taiwan has no diplomatic relations with Japan, it is still possible, through private organizations active between the two countries, for the governments to exercise, as before, considerable influence. Not only can the Japanese Government encourage its people to increase imports from Taiwan, but also, to a more effective degree, encourage high-tech industry to invest in Taiwan, with the industry's products to be imported into Japan later. Japan must also raise the level of delegates that negotiate trade affairs with Taiwan so that truly substantial results can be achieved in these negotiations, and to not have them assume the nature of mere formalities. Second, Japan must also relax irrational quarantine and security provisions, harsh and troublesome administrative procedures, and visa requirements for personnel who handle economic and trade affairs as well as

delegates coming for negotiations. Finally, the Japanese Government must not yield to pressures from Communist China so as not to be unfair in its treatment of Taiwan trade.

Taiwan, for its part, should cool-headedly examine the situation, and after reviewing the fundamental reasons for the trade deficit, seek methods to provide a solution. In the past, in order to eliminate the trade deficit with Japan, the Ministry of Economic Affairs once peremptorily prohibited the importation of over 1,000 Japanese products, but this proved futile, as it created disputes, the matter finally being settled by merely leaving the problem unsettled. In future, therefore, we must avoid any such negative methods.

Since the fundamental causes for Taiwan's trade deficit with Japan result from the disparity of the economic structures, as mentioned earlier, any solution must also be attempted by starting from this factor. Technological backwardness is the reason why Taiwan's products cannot be marketed in Japan in large quantities. We must, in the future, raise the technological standards and improve product quality, so that Taiwan products will be competitive in the Japanese market with similar products from other countries and found in no way inferior. Concurrently, we must direct our efforts to studies of the Japanese consumer, consumption habits and their likings, to be able to plan products that will be well received by the Japanese consumer. As to marketing channels inside of Japan, we must find ways to open them up. Since many Taiwan manufacturers have close personal connections with Japanese manufacturers, some also being able to converse in their language, there should be no difficulty to achieve this. Moreover, most of the products that Taiwan imports from Japan are industrial raw materials and production equipment, so that as soon as Taiwan's domestic level of technology is raised sufficiently, it should be possible to consider manufacturing the said items domestically in Taiwan, substituting imports from Japan, or to purchase them from other countries. To reach that objective, it is necessary that the relevant financial and economic agencies of the government give assistance and guidance to Taiwan manufacturers through encouragements in the form of banking, fiscal, and tax benefits.

As to the general consumer public, we also hope that we will be able to instill in them the habit of giving preference to Taiwan products, and not to blindly revere

Japanese goods. Actually, many consumer goods imported from Japan can be manufactured in Taiwan, and at a quality not inferior to the Japanese product, while prices for the Japanese products are very much higher than for the domestic products. If all Taiwanese would give preference to Taiwan-manufactured products, I believe importation of these specific kinds of consumer goods could be markedly reduced, and this would also considerably assist in eliminating the trade deficit with Japan.

Poll Shows Satisfaction With Government Leaders

*OW0109200590 Taipei CNA in English 1549 GMT
1 Sep 90*

[Text] Taipei, Sep. 1 (CNA)—Nearly 80 percent of the people in the Republic of China are satisfied with President Li Teng-hui's job performance since his May 23 inauguration, according to a Gallup survey released Saturday.

Chinese Television System, which commissioned the Gallup Organization of the United States to make the poll, said 74 percent of 1,005 respondents agree that President Li is a leader of "great courage and determination."

As many as 80 percent of those who replied to the question say President Li is [words indistinct] and 75.18 percent say Li is an "able president."

To the question of whether President Li is far-sighted [words indistinct] respondents say yes, while 5.2 percent reply no.

Other government leaders being evaluated include Premier Hau Pei-tsung, and Taiwan Governor Tien Cha.

The results show that 89.4 percent of the respondents think Hau has great courage and determination, 61.1 percent regard him as congenial, a 85.2 percent say he is an able government leader.

The "results also show that 37.1 percent of the pollees [words indistinct] with major job performance, while another [word indistinct] percent is satisfied." Only 5.6 percent are dissatisfied with the premier's performance.

Over three-quarters of the pollees—75.4 percent—say Hau is far-sighted, while six percent say he is not.

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